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RESPONSIBLE REDUCTIONS IN FORCE

AN AMERICAN MANAGEMENT ASSOCIATION RESEARCH REPORT ON

DOWNSIZING AND OUTPLACEMENT

Amacom Briefings & Surveys

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CONTENTS

	Introduction	7
Section I	1. Respondents See Fewer Layoffs	14
	2. Cushions and Windows	23
	3. Layoff Policies	35
	4. Preparation and Job Security	44
Section II	5. Reductions in Force: The Why and the How	53
	6. Outplacement Services	60

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Hickey & Associates has designed successful programs in the manufacturing, aerospace, medical system, high-technology, service, and banking sectors. It has developed and managed the nationally recognized General Electric Re-Employment Center in Columbia, Maryland, helping to retrain and place in jobs more than 650 displaced GE employees, and developing more than 1,200 job openings.

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Introduction

THIS STUDY of workforce reductions and assistance to terminated employees began in April 1987, with an on-site survey at AMA's Fifty-Eighth Annual Human Resources Conference. A brief questionnaire asked conferees if their organizations had undergone a reduction in force in 1986, and if they planned one in 1987. It also asked if companies had in place any retraining or redeployment programs, and if they offered outplacement assistance to workers whose jobs were lost in downsizing efforts.

The results encouraged a wider research effort. The questionnaire was revised and lengthened, and mailed in June 1987 to selected AMA members enrolled in the Human Resources division, as well as to subscribers to *Personnel*, AMA's monthly human resources magazine. More than 1,100 responses provided the data for this AMA Research Report.

What follows is a brief overview of our findings.

REDUCTIONS IN FORCE, PAST AND FUTURE

Forty-five percent of 1,134 respondents to the AMA questionnaire reported significant reductions in force during the 18-month period from January 1986 through June 1987.

- Corporate size was a factor: 6 out of 10 large firms (+$500M in annual sales) downsized, reducing workforces by an average 9 percent; half of the mid-sized firms ($50M-500M) downsized, averaging an 11 percent reduction; 40 percent of the small firms (-$50M), with an average 14 percent reduction.

- Business function also counted: 57 percent of manufacturing firms downsized, compared with 38 percent of service providers. In the latter category, 43 percent of profit-making service firms downsized, compared with 30 percent of nonprofits.

In contrast, 17.4 percent of the respondents said that they planned future reductions in force in the 12 months ahead, from July 1987 through June 1988. *This is a baseline number that can only increase, and certainly will;* the number is drawn from human resources managers who knew of future plans in July 1987

- Again, size matters. A third of the large companies plan reductions, compared with 19 percent of mid-sized firms and 11 percent of small ones.
- But business function is *not* an important variable in future downsizing plans: 15 percent of manufacturers will reduce workforces, 18 percent of service firms. *This and other survey data, along with additional research and interviews, indicate that white collar workers are a specific target*—especially middle managers, whose jobs may be roughly defined as gathering and disbursing information. Computer technology now threatens these jobs in the same way that automation reduces blue collar jobs.

To those planning future reductions, it mattered only slightly whether companies had downsized in the past: 14 percent of firms that downsized in the previous 18 months reported plans for another round within the next 12 months.

Additional factors at work: *offshore sourcing,* manufacturing, and assembly—as well as offshore data input which affects an increasing number of service firms. *Reduced layers of management,* eliminating middle managers and supervisors. *Self-directed workforce practices,* again reducing supervisory functions.

POLICIES AND PRACTICES IN DOWNSIZING

In a variety of ways, companies seek to soften the blow to displaced workers, generally dividing these practices as they apply to exempt (salaried) and nonexempt (hourly) employees.

Asked whether companies *would be likely to employ these tactics in future downsizings* (rather than whether they did employ them in past reductions), respondents to the AMA sample gave the replies shown in Exhibit I.1.

Three out of ten companies give *immediate* notice of termination—the "clear out your desk" approach. Twenty-three percent give no more than two weeks notice; 17 percent give up to a month's notice. Only 12 percent reported giving more than one month's notice of termination. However, the larger the workforce reduction, the further in advance comes the layoff notice.

The favored day for announcing the bad news is Friday (24 percent); another 23 percent answered "variable," which may include Fridays. Don't worry about Thursdays: only 2 percent of respondents said they gave notice on that day.

Exhibit I.1. Initiatives likely employed in the event of a downsizing (percentage of respondents checking each category).

	Exempts	Nonexempts
Early retirement incentives	43.9	30.6
Outplacement services for *selected* levels or job categories	40.5	16.5
Outplacement services for *all* employees	26.2	26.2
Extension of health benefits beyond normal policy provisions	38.3	31.8
Extension of severance pay beyond normal policy provisions	33.3	21.4
Job redeployment/retraining opp'ties	36.3	40.7
Job-sharing/part-time employment for full-time workers	21.1	36.6
Salary reductions across-the-board	25.9	23.2

OUTPLACEMENT AND DISPLACED WORKER ASSISTANCE

A more extensive questionnaire went out to 451 survey respondents that had downsized in the period January 1986-June 1987 and had provided names and addresses for further contact on the original questionnaire. By September 1, AMA had 210 usable responses to this second questionnaire on outplacement services and assistance to displaced workers.

Data below is from this secondary subsample of 210 firms.

- Two-thirds of the reductions were selectively targeted at specific plants, functions, or units. Only 16 percent involved a total shutdown of plants or offices. One-third were organization-wide—across-the-board cutbacks affecting most corporate units. (Figures exceed 100 percent because respondents were asked to "check all that apply" on a given checklist.)
- Just over half (55 percent) said the reason for the cutbacks was a downturn in business—*but 45 percent said the reason was "improved staff utilization."* This focus on workforce productivity, independent of current economic conditions, represents *a major shift in rationales for downsizing over the past five years.* Eleven percent said that mergers and acquisitions accounted for the reductions, and just 4 percent cited plant obsolescence. (Again, figures exceed 100 percent because respondents were asked to "check all that apply" on a given checklist.)
- In large part because of this new rationale for downsizing, companies that must answer to communities, governments, unions, and their own remaining workforces are increasingly likely to extend assistance to displaced workers.

Exhibit I.2 lists the forms of assistance, with the percentage of respondents that actually offered such assistance to workers in recent reductions.

Exhibit I.2. What forms of assistance did you offer to displaced workers in your recent downsizing effort?

Networking with area employees to develop employment opportunities	44.3%
Paid time off for job seeking	41.4%
Relocation opportunities to company units in other geographic locations	34.7%
Special liaison arrangements with *private* employment agencies/search firms	24.8%
Special liaison arrangements with *public* employment agencies	16.7%

- The most common forms of worker assistance were outplacement services, provided by nearly half (48 percent) of subsample respondents. Managers were more likely to receive such services than nonexempts. Individual counseling (88 percent) was more prevalent than group workshops (45 percent).

The outplacement services provided during recent reductions took various forms. Exhibit I.3 shows the most popular practices.

- Respondent ratings of the benefits realized from providing outplacement services reflect corporate concern with the morale and productivity of the remaining workforce and public opinion in the affected community. Those in the sample who provided outplacement services rated their benefits on a 5-to-1 scale, a 5 representing the top rating. Exhibit I.4 lists the results.

Exhibit I.3. What forms of outplacement services did you offer?

	Pct. of whole subset	Pct. of those providing outplacement services
Resume development	42.4	89
Interview training	34.3	72
Benefits counseling	28.6	60
Skill/interest assessment	27.6	58
Job/labor market information	26.7	56
Mailings	29.1	46
Follow-up	19.5	41
Out-of-area job searches	12.4	26
Career resource centers	12.9	27
Personal finance counseling	11.9	25
Family counseling	10.5	22

Exhibit I.4. What benefits did your organization realize from offering outplacement services? (Rated on a 1-5 scale, with 5 being "highly beneficial.")

Eased management concerns about terminating long-term employees	4.05
Improved morale among remaining workforce	3.97
Improved company image in community	3.89
Stabilized productivity among remaining workforce	3.81
Avoiding grievances and wrongful discharge liability	3.73

SUMMARY

Fewer firms will downsize in the coming year than in the past 18 months; nevertheless, one in five respondents have current plans to reduce workforces before mid-1988. Downsizing has become an ongoing corporate activity, independent of economic expansion or contraction. White collar workers, and especially middle managers, are targets. Companies that downsize are sensitive to community pressures and concerned about morale and productivity of the remaining workforce; for that reason, they provide a variety of forms of worker assistance, outplacement services being primary.

ABOUT THIS STUDY

There are, perhaps, three phases to a major reduction in force:

1. *A recognition period*, in which an organization confronts the need to reduce its workforce. This recognition can result from internal pressures: a product may no longer be competitive, processes may have become obsolete, or the company may have added excess weight (layers of management, support staff). Or, it may stem from external pressures: an unexpected market downturn, a hostile takeover. Whatever the cause, the company needs to respond with reduction targets and analysis of the financial implications.
2. *The actual downsizing*, in which the organization reviews or establishes severance policies, procedures for plant closings, assistance programs for displaced workers, and the like.
3. *Forward motion*, a phase in which the remaining employees keep the organization going, often with fewer layers of management, often with broader roles for key players.

Robert M. Tomasko's *Downsizing: Reshaping the Corporation of the Future* (AMACOM, 1987) deals with the first of these phases, with special emphasis on how ongoing planning and analysis can help a company maintain a lean profile. A summation of some of Tomasko's major points appears in Chapter 4.

This report contributes information relevant to the second phase. We wished to identify current trends related to downsizing and collect information on how organizations are dealing with those individuals who are released from employment: What length of notification do they give? What

types of "cushions" can ease the blow of a major reduction? How widespread are windows, such as early retirement and voluntary separation? What constitutes an effective outplacement program? How much do such programs cost, what eligibility criteria do companies use, and how do they gauge effectiveness?

The forward motion phase falls outside the limitations of this report. True, the manner in which a company deals with displaced workers—the concern shown and support given—has a pronounced impact on the morale of those who remain, according to our respondents. Perhaps more than any other event, a downsizing tests a company's premise that it "cares for its employees and considers its human resources its most valuable asset." A number of respondents were clearly able to maintain these values, as various statistics and case studies throughout this report reveal.

The morale factor, however, is only one component of a complex mix of problems and opportunities downsizers are likely to face after a major reduction. Yes, the newly pruned organization can be leaner, tougher, more responsive, our respondents tell us. Fewer management layers mean that deals can be made more quickly. Scrapping obsolete plants means that new forms of automation and workforce organization can be built. Improved profitability means a more favorable price-earnings ratio, greater security for the future, and so on. Other respondents talk about sizable gaps in their management know-how, the loss of individuals with specialized expertise in, say, exporting or research and development. More than a few talk about the pressures of being understaffed.

Our research methodology employed two separate but related instruments:

1. A "short form" questionnaire, asking the respondent to fill in information about the extent of downsizing, both past and anticipated; the types of "cushions and windows" the firm would most likely use in the event of a downsizing; typical policies with reference to length of notification; and the like. In addition, this questionnaire contained two attitudinal questions, one on the company's preparedness for a major reduction, the other on the importance of job security as an aspect of company culture. We received just over 1,100 returns.
2. A "long form" questionnaire, sent to selected individuals who indicated that they had undergone a reduction in force and who said they would be willing to provide additional information. This questionnaire was indeed lengthy and focused exclusively on how the respondents had dealt with displaced workers. We received just over 200 replies.

In addition, we listened in on a series of executive roundtables (the AMA advisory councils) during which participants talked about their companies' experiences with downsizing, among other items on the agendas.

The first section of this report (Chapters 1 through 4) deals with the answers to our short-form questionnaire. This section highlights general trends and probes the data to uncover relationships between the attitudinal questions and the specifics of policy and practice. What, exactly, does being "prepared for downsizing" mean? Does the embracing of a "job security" philosophy make a difference in the way a company handles employees during a downturn?

The second section (Chapters 5 and 6) deals with the company's response to displaced workers, the specifics of outplacement support. The term "outplacement" as used here encompasses a variety of

practices: retraining, job fairs, time off for job search, and the like, as well as the traditional meaning: resume preparation, interview coaching, and other support.

The research suggests that a number of activities may be worth consideration:

1. Ongoing planning for the eventuality of downsizing calls for a variety of actions: training for greater role and task flexibility, long-term workforce planning, and ongoing "rationalization" of company units. Job redeployment, cross training, and other programs clearly put a company in a better position to deal with a reduction. Planning for "windows" such as early retirement helps a firm maintain an image of offering "job security" even when reductions must occur.
2. A broad approach to worker assistance and outplacement seems to be the most effective. A one-day workshop on resume preparation has far less impact than time off for job search, networking with other area companies, on-site job fairs, and the like. For exempt employees, use of a full-service outplacement organization has a clear impact on the morale of the remaining executives and on the company's image, say our respondents.
3. The underuse of government-sponsored retraining stems from (a) widespread ignorance about the existence of this support and how to access it and (b) the pressure of trying to retrain during the trauma of layoffs. In other words, many of our respondents feel that an impending layoff is the worst time to offer retraining. Displaced workers are worried about their next paychecks—classrooms and textbooks are academic. On the other hand, persons experienced in offering retraining after an identified layoff report a different view. The shock of job loss often enhances an individual's willingness to explore new options—they are, in effect, frightened into recognizing the need to upgrade skills. Also, employers become more receptive to new ideas, including retraining, in order to maintain as much harmony and morale as possible.

1

Respondents See Fewer Layoffs

The wave of downsizings, plant closings, and other reductions in force may have crested. Our respondents see far fewer reductions on the horizon, compared with recent history. The gap between past and future (Exhibit 1.1) may, at first, seem puzzling—headlines about reductions and layoffs having become predictable in the business press. Statements made on the basis of the current survey have already drawn challenge from various circles. The predictions, however, gain greater credibility the closer one looks at statistics compiled by this and other research organizations.

First, note (Exhibit 1.1) that a sizable number of organizations will likely face reductions during the 18 months ahead: 17 percent, or about one company in five. For larger organizations, the number climbs to over 30 percent—about one respondent in three. *These numbers are small only when compared to the massive number of reductions in the recent past.* Moreover, respondents completed the questionnaire during the U.S. economy's forty-fifth consecutive month of recovery, with most economists putting the next major recession at least two years away. That picture could, of course, change, canceling all predictions.

Even with these qualifications, however, the prediction of fewer layoffs remains convincing. This doesn't mean, however, that U.S. workers are entering a new era of job security.

FORCES BEHIND THE CHANGE

In September 1987, the U.S. unemployment rate dropped below 6 percent, a rebound in the manufacturing sector accounting for about 40 percent of the more than 132,000 new jobs created. Increases in manufacturing output continued to climb at a 3 percent growth rate—a far cry from the 6 percent in the heady days of the 1950s and 1960s, but stellar by comparison with the early 1980s. The foundation behind these changes was dug with new equipment and a new management ethic. American industry, almost knocked out of the ring by low cost, better quality goods from abroad, is putting both ingenuity and money to work. Although the renewed plants run with fewer workers, the goods produced (and the jobs needed to make the products) are more durable.

A 1987 survey by Arthur Andersen and Company of Chicago-area manufacturers indicates that more than 90 percent of the respondents see ongoing quality improvement as the key to competitiveness. More than 80 percent have already taken steps to implement total quality control; a startling 50 percent have implemented just-in-time (JIT) inventory systems; one in 4 is moving forward with computer-integrated manufacturing (CIM); 7 in 10 are upgrading their information systems. A decade ago, "productivity" meant getting employees to work harder or smarter. The rekindling of manufacturing productivity now focuses on the efficiency of machinery and processes —with direct labor accounting for less than 15 percent of total product costs.

A recent poll of manufacturing executives at an AMA roundtable indicated that many companies are moving toward continuous flow manufacturing, the automation of processes formerly handled via job shop methods. In addition, greater efficiencies in computer-aided design are all but eliminating the "transfer" of a design to production. Designing the part for manufacturability and the computerized information links between R&D and production shorten the time between concept and production. These changes are basic—a new foundation. They are not likely to disappear.

Simultaneous with this is a new drive to pull up U.S. suppliers by the bootstraps. The drive for higher quality (and lower inventories) can move full speed ahead only if fed with a steady stream of defect-free materials and components; inability to secure such materials at home has forced a wave of offshore sourcing. This wave, too, may soon crest, as more manufacturers strike long-term deals with domestic suppliers. A new term, "vendor quality assurance" (VQA), has been added to the purchasing vocabulary. These arrangements impose controls on quality and timeliness of materials delivered. The supplier benefits from the longevity of the contract, the manufacturer from a reduction in both supplier base and inventory (not to mention purchasing paperwork). The Arthur Andersen survey cited above reveals that more than 60 percent of the respondents are making new quality demands on suppliers; 41 percent are considering the recommendation of JIT delivery to their suppliers. Other research by AMA indicates that approximately 30 percent of the respondents, both service and manufacturing, are forming long-term arrangements with vendors.

The quality/global competitiveness equation (coupled with the weakness of the dollar) can mean fewer imports—and more jobs domestically. How many more? Conference Board economist Richard S. Belous and Andrew W. Wyckoff of the U.S. Office of Technology estimate that every $10 billion in increased export activity translates into about 193,000 jobs. Although recent balance-of-trade statistics are ambiguous about the future of the U.S. deficit, the export volume has been climbing.

Add to these economic trends simple lessons from experience. Some of the cuts during the 1980s were too deep or poorly thought out. Some companies reported gaps in know-how. Others talked about the pressure of being understaffed. In January 1987, *The Wall Street Journal* ran a front page article raising questions about the impact of streamlining on long-term competitiveness. Trimming operations for the sake of near-term profits, either to appease stockholders or fight potential raiders, was cause for growing concern, according to the story.

The R&D area was apparently hard hit, especially in those reductions tied to mergers and acquisitions. The result, according to a recent AMA roundtable, is that some firms have simply stopped research in areas that are not immediately profitable. Gone forever are the days when R&D departments were regarded as country clubs (if that scenario was ever actually a reality). Survival has now become the issue, with one participant lamenting, "We used to be farmers.... Now we are hunters and gatherers—and we must learn how to be very adept hunters." The immediate impact on the balance sheet may be beneficial; in fact, the curtailment of basic research may not show as a deficit for a good number of years. When it does show, the problem will be so deep as to defy easy remedy.

THIS DOESN'T MEAN THE OTHER SHOE HAS DROPPED

Or that employees can rest on their laurels. Among other forces that will influence further reductions:

1. *New concern for the contribution of indirect labor.* In its 1987 identification of "America's Most Competitive Companies," *Newsweek* introduced two new selection criteria: one based on the ratio between number of employees and revenue; the other based on the ratio between employees and profit. Although these are, as *Newsweek* concedes, very rough measures, they do yield startling results. One of the most competitive companies (Agency Rent-a-Car) has a profit-to-employee ratio almost six times better than others in its industry! Much of the current advantage Ford is now enjoying over General Motors can be explained by a similar ratio, according to an analysis in *The Wall Street Journal* (October 2, 1987). Ford now makes and sells about 16 vehicles for every employee; at GM, the rate is only about 10 vehicles for every employee. In 1980, the two companies were about even, at the 10-vehicles-per-employee level. (More on measuring the productivity of indirect labor in Chapter 4.)
2. *Continued restructuring.* Clayton and Dubilier, an investment firm specializing in management buyouts, says that 23 percent of the 250 *Fortune* 500 firms surveyed may restructure. Many of these restructurings may involve elimination of management; some, plant closings. These statistics parallel our research, which indicates that 24 percent of the larger companies surveyed foresee a reduction in force.
3. *New workforce arrangements.* Among other lessons learned during the period of retrenchment is that factories can operate with fewer layers of management. One respondent is implementing what is termed a "self-directed workforce" at more than 30 locations. After careful and intense training, each group of employees works without the benefit of a first-line supervisor. The groups make hiring decisions, train and certify new hires for specific jobs, and handle routine machine maintenance and cleanup, tasks usually assigned to support staff. Many participants at a recent AMA roundtable felt that arrangements such as this have great promise.
4. *More automation.* The alphabet soup of new manufacturing methods—CIM, CAD/CAM,

CFM, JIT, MRP II—will continue to spell fewer employees and more security for those who do work. Simultaneous with this is increased need for better training. Job security may come to rely more on such training.

5. *Possible reductions in the service sector.* The direct labor component is significantly higher—about 25 percent of the cost of delivering the service. This factor may account for the suggestion of less stability in service industries (see below). In the service business, local area networks, personal computers, and improved on-line access form the productivity equivalent of the factory's numerical control machine and MRP II system. However, the ability to leverage capital investment into improved productivity may be more elusive in many businesses. Here, the middle management bulge may protrude more than in manufacturing. To our knowledge, no systematic survey has been done showing how service industries are becoming more productive. Perhaps the types of industries are simply too diverse.

IS AMERICAN STEEL DEAD?

A few years ago, news commentators were writing the obituary for U.S. steel. Outmoded equipment, high labor content, and poor quality were the surface manifestations. Short-sighted management resulting in failure to invest in capital improvements was the real culprit—an easy duck to shoot at. Investment Tax Credits via the 1982 Economic Recovery Tax Act were too late. The only answer, said some, was to close all plants except those filling niches for high-speciality steel. Although the jury is still out, many commentators have changed their tune from dirge to madrigal. "Cancel the Funeral—Steel is on the Mend," announced a *Newsweek* headline.

Since 1982, U.S. steel producers have poured about $8 billion into new equipment, claiming some $65 million in tax credits. The result: almost 60 percent of U.S. steel is now produced in continuous casters, compared with about 30 percent in 1982. Worker-hours per ton of steel have dropped 40 percent, and pretax manufacturing costs have plunged to about $440 a ton—$40 per ton less than in Japan. Quality, as well, is on the mend.

The more efficient processes and the plant closings cost about 100,000 jobs, a 44 percent reduction over the past five years. Production capacity has dropped by 27 percent. Some analysts predict the need for still further reductions in both workforce and capacity, the result of curtailed demand. At the moment, however, employment levels are holding steady. The need for further downsizing may be on hold.

THE SURVEY STATISTICS

Approximately 550 of our 1,134 respondents reduced their workforces in the past 18 months, displacing some 173,800 employees. The largest reduction totaled in excess of 40,000. Four respondent *Fortune* 500 companies accounted for approximately 40 percent of the total 173,800.

One-hundred ninety-seven respondents, or 17.4 percent of the sample, foresee the need to downsize in the year and a half ahead. Of these, 146 have a sufficient grasp of the future to project the size of the reduction. The total: 52,000.

The results, then, clearly point toward an easing off in the number of firms trimming their complements. This is true for both manufacturing and service organizations. In the latter category, however, the number of persons affected per layoff may be higher.

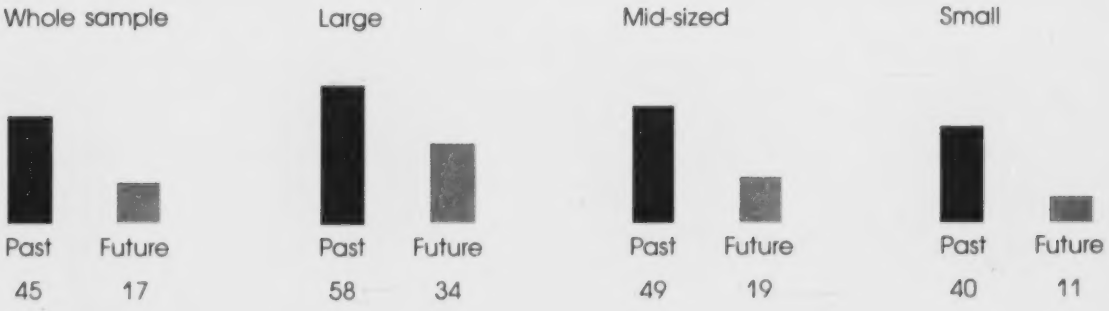
The questionnaire put the query in as straightforward a manner as possible: Have you downsized in the past 18 months? Yes or no. If yes, how many jobs were eliminated companywide? What percentage of your total workforce did this represent? The next series of questions repeated this sequence for the future: Do you anticipate a layoff in the next 18 months? If yes, how many jobs will be eliminated? What percentage does this represent? The exhibits on the next several pages show the trends.

Of our total database, 45 percent indicated that they had reduced their forces, compared with just over 17 percent anticipating such reductions (Exhibit 1.1). Note, however, that the downsizing is slackening more slowly among the larger companies. During the past 18 months, 58 percent had downsized; 34 percent anticipated doing so. Job security is running higher (past as well as future) in the mid-sized and smaller firms.

Among large-company respondents, the average number of jobs eliminated in the past was 2,770 (Exhibit 1.2). The future figure will show 1,881. The database for past reductions contains responses from four large-company respondents who reduced their workforces by more than 10,000 employees. These numbers drive up the averages considerably. All four are planning future reductions, but at a dramatically lower level.

Exhibit 1.1. The trend toward fewer layoffs.

Percentage of companies that have been (or will be) involved in downsizing—past 18 months vs. future 18 months.



Note: n 1,077 for respondents answering yes or no to past reduction; 1,067 for future. Tabulation excludes respondents that did not answer question on company size.

Exhibit 1.2. The trend toward fewer layoffs—number of jobs and worksites affected.

	Whole sample		Large		Mid-sized		Small	
	Past	Future	Past	Future	Past	Future	Past	Future
Ave. number of jobs affected	363	356	2,770	1,881	125	90	39	28
Pct. of workforce	12	8	9	4.5	11	8	14	6
Number of sites affected	8	13	57	82	5	5	1	3

Note: n = 1,077 for past, 1,067 for future.

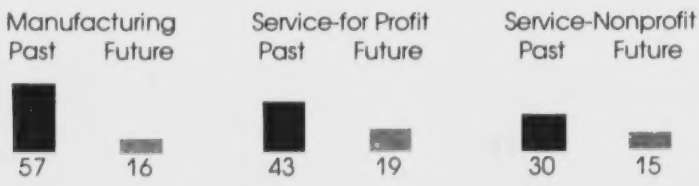
If we look at the same data from the standpoint of business categories (Exhibit 1.3), we see that downsizing in the past has been highest in the manufacturing sector—not a surprising finding. Increased automation plus a reduced need for American-made goods, vis-a-vis imports, plus the continued trend toward foreign sourcing make this a predictable finding. The future for job security in the manufacturing sector looks a bit more optimistic, in terms of the percentage of companies planning a reduction and the total number of jobs affected.

There are, however, some pronounced countertrends in the data. Yes, the number of companies reducing their respective workforces is decreasing, but:

- The number of sites affected per layoff may well increase.
- The service sector may well see an increase in the number of workers affected per layoff.

Exhibit 1.3. Downsizing, by industry category.

Percentage of respondents answering yes to questions on past and future downsizing.



Note: n = 1,080. Tabulation excludes respondents that did not answer question on category and those that could not be classified as either manufacturing or service. See note, next exhibit.

Exhibit 1.4 shows both trends. Not shown: the fact that our questionnaire caught a significant number of our respondents in the process of downsizing: they had reduced forces within the past 18 months, and they were planning further reductions in the future. The increase in the number of sites affected suggests a general slimming down of the workforce companywide, an across-the-board "leaning out."

For our large-company respondents, the number of sites affected increases dramatically (Exhibit 1.2). Over the past 18 months, downsizing affected an average of 57 sites for large companies; in the future, the average number of sites impacted will climb to 87. More commentary on this later.

Still another countertrend emerges if one looks at the for-profit service category in both Exhibits 1.4 and 1.3. The Department of Commerce macro statistics point, repeatedly, to America's change from a manufacturing economy to a service economy. This does not, however, equate with job security.

The for-profit service respondents went through their share of downsizings, and the average number of persons affected per downsizing was actually higher than for manufacturing. This trend will continue. The average layoff in the for-profit service sector may be higher—dramatically so—in the future, compared with manufacturing.

Not surprisingly, the nonprofit service sector has been least affected by downsizing. Schools and social service agencies continue to operate regardless of the economy; although we have seen some efforts to reduce government spending, the cuts have yet to be deep. Moreover, these organizations are not affected by mergers and acquisitions. This does not mean—again—that such organizations have been unaffected. Also, the number of employees per layoff will likely increase in the future.

Exhibit 1.4. Number of jobs and worksites affected, by category.

	Manufacturing		Service-for Profit		Service-Nonprofit	
	Past	Future	Past	Future	Past	Future
Ave. number of jobs affected	219	309	59	137	657	617
Pct. of workforce	11	8	5	6	15	11
No of sites affected	11	10	15	33	2	4

Note: n=1,080. Tabulation excludes respondents who did not answer question on category and those who could not be classified.

WHERE ARE REDUCTIONS HEADING?

The sense among major corporate executives is that the overall trend in reductions will continue through the end of the century. The factors affecting this continuation include:

- global competition
- evolving corporate philosophies
- reassessment of staff and support needs
- changes in products and services
- change to an information and service economy
- increase in technology and automation

But the outlook is for a future less dramatic than the past. Previous reductions were often the first choice as a means to reduce costs and enhance profit margins, often under pressure from corporate shareholders. Now, corporations are exercising more sophisticated options, cutting away at excess and making reductions in force more an option of last resort. Some options currently in practice:

- Increasing the efficiency of the workforce. Generalists, rather than specialists, have a broader range of skills for the workplace.
- Evaluating inventory. Concepts such as "just-in-time" (JIT) inventory reduce overhead.
- Moving toward a self-directed workforce. Responsibility and credit go directly to the people who perform the tasks, while nonessential management levels are cut.
- Bringing services in-house, after reevaluating the need for costly consulting and contracting fees.
- Reevaluating the work space.
- Reevaluating options for transport.
- Refinancing long-term debt.
- Automating routine administrative functions.
- Considering compromise labor cost reductions, such as job sharing and work sharing.

The emphasis should be on creativity. By cutting back on nonessentials first, management may avoid heavy layoffs later. This requires an intensive effort on behalf of senior managers to study the entire work environment.

The manufacturing and service sectors present two opposite spheres in terms of labor division and importance. The reality is that manufacturing's relative share of the GNP has not changed since the 1950s. What has changed is the employment structure—more machines, fewer people. In addition, manufacturing has a tangible product, for which there is a real demand. When that demand decreases, changes are introduced into the product to make it more desirable (for example, the influx of new and improved products into the market). The changes have more to do with mechanics than labor. The flexibility of the structure allows for this. Overall, labor costs account for only 15 to 20 percent of the overall cost of manufacturing.

In contrast, service companies operate on both real and perceived demand, and are labor intensive. When demand for their products and services increase, the labor pool increases. As

demand decreases, staff decreases proportionally. Diversification is often the key to stability in the service sector.

Manufacturing had to face up to the realities of workforce reductions much sooner than service corporations. The result: a leaner workforce, new techniques and concepts, and diversification. Now, it is the service sector's turn.

Downsizing hasn't ceased in manufacturing, but it has changed its face. Attrition and reassignment are the current trends, rather than selective or across-the-board cuts.

The key: how corporations use the knowledge acquired in the past to guide them to future growth and stability.

Michael P. Hickey

2

Cushions and Windows

"WHICH OF these tactics would your company be likely to employ in the event of a downsizing?" The questionnaire put this query to our respondents, providing a list of 11 separate initiatives, and asked for checkmarks in two categories, exempt and nonexempt. Exhibits 2.1, 2.2, and 2.3 give the answers—the percentage of respondents answering, yes, they would be likely to employ this tactic. Let's take a close look at each program—the objective that it is designed to accomplish and how effectiveness might be evaluated.

Early Retirement Incentives. "Likely used" by 31 percent of our respondents for nonexempt employees, 44 percent for exempt employees.

Many organizations have used this option to reduce both the size of the workforce and cost (both total and per person) of those remaining.* The option can be offered in two ways: either at face value of a full retirement/pension program or, as in most cases, at a reduced benefit amount until the regular pension takes effect. In addition, an eligibility period for unemployment compensation benefits may be made available. This eligibility payment and the length of unemployment benefits depend on when the early retirement takes effect, relative to both the termination date and the amount (percentage) of employee/employer contribution to the program.

*Per-employee cost decreases because those employees who are eligible for this incentive are most likely in higher pay brackets.

Michael P. Hickey of Hickey & Associates contributed much of the material for this chapter.

Exhibit 2.1. Cushions and windows likely used (all respondents).
Percentage of respondents indicating they would "likely use" this program or initiative in the event of a downsizing.

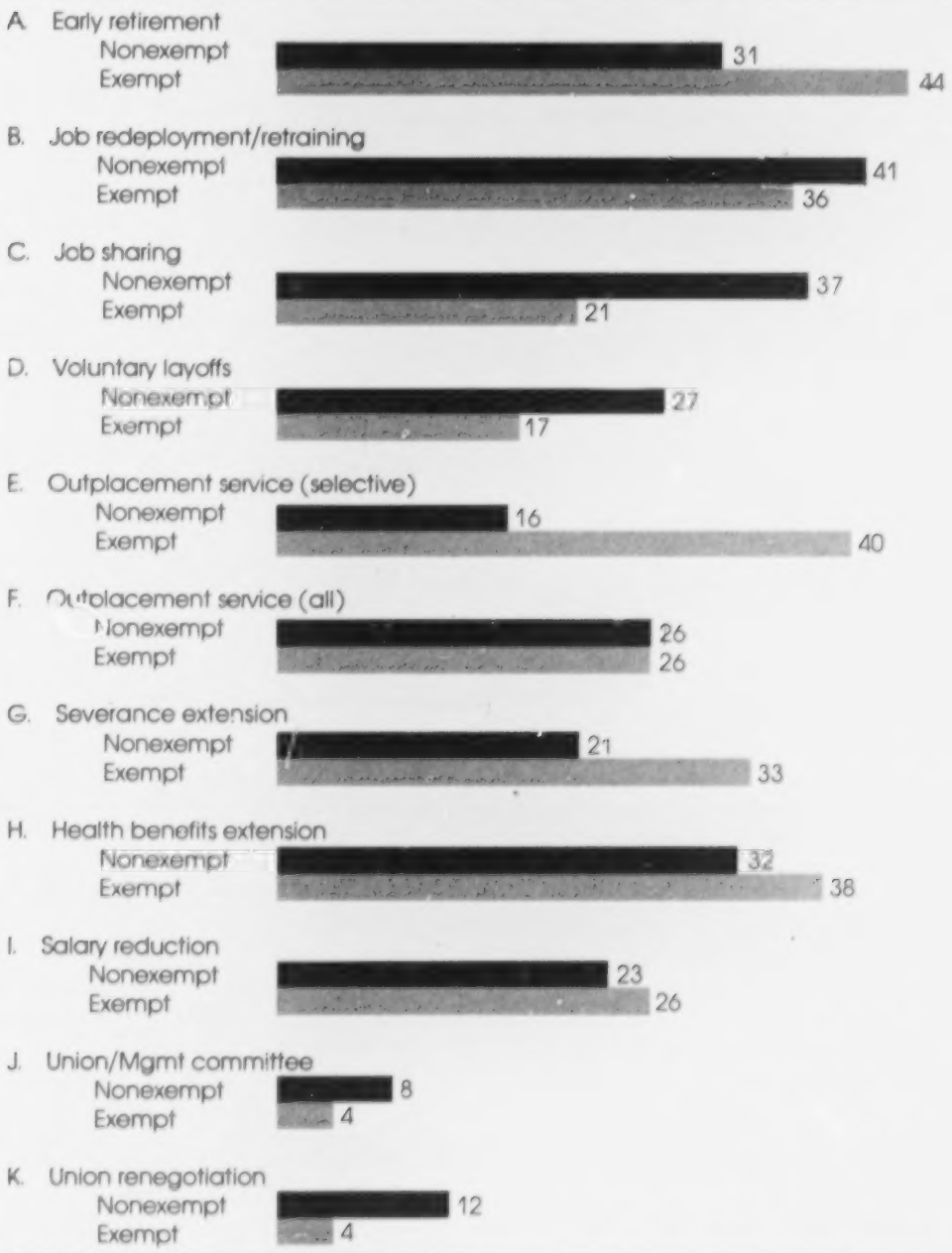


Exhibit 2.2. Initiatives to cushion downsizing by company size. Percentage of respondents indicating they would likely use this program or tactic in the event of a downsizing.

	Small	Mid-sized	Large
A. Early retirement			
Nonexempt	21	36	51
Exempt	33	51	70
B. Job redeployment/retraining			
Nonexempt	33	42	58
Exempt	28	40	51
C. Job sharing			
Nonexempt	42	37	26
Exempt	24	19	17
D. Voluntary layoffs			
Nonexempt	25	34	21
Exempt	15	22	16
E. Outplace service (selective)			
Nonexempt	13	19	25
Exempt	30	51	57
F. Outplace service (all)			
Nonexempt	22	27	39
Exempt	22	28	40
G. Severance extension			
Nonexempt	15	22	45
Exempt	26	36	57
H. Health benefits			
Nonexempt	27	34	45
Exempt	34	40	50
I. Salary reduction			
Nonexempt	28	22	12
Exempt	32	24	14
J. Union/Mgmt committee			
Nonexempt	6	10	14
Exempt	3	3	9
K. Union renegotiation			
Nonexempt	9	16	17
Exempt	3	4	7

Exhibit 2.3. Initiatives to cushion downsizing by type of industry.

	Manufacturing	Service - For Profit	Service - Nonprofit
A. Early retirement			
Nonexempt	33	25	34
Exempt	50	40	43
B. Job redeployment/ retraining			
Nonexempt	39	39	45
Exempt	36	36	39
C. Job sharing			
Nonexempt	33	35	46
Exempt	15	19	32
D. Voluntary layoffs			
Nonexempt	39	18	23
Exempt	22	13	18
E. Outplacement service (selective)			
Nonexempt	16	15	18
Exempt	48	41	31
F. Outplacement service (all)			
Nonexempt	27	26	25
Exempt	27	26	25
G. Severance extension			
Nonexempt	22	28	13
Exempt	38	40	20
H. Health benefits extension			
Nonexempt	33	33	30
Exempt	41	40	34
I. Salary reduction			
Nonexempt	25	22	25
Exempt	28	23	27
J. Union/Mgmt committee			
Nonexempt	8	6	10
Exempt	2	4	6
K. Union renegotiation			
Nonexempt	18	7	12
Exempt	4	3	5

Early retirement programs are one of the most popular options available for both employers and employees, but because of the nature of employment contracts, exempt employees are often the recipients. The list of companies offering early retirement plans within the past three years is impressive: Exxon (early retirement offered to 40,000 employees), IBM (offered to 12,000), Xerox (offered to 4,000), General Motors (part of an effort to reduce the workforce by 25 percent), Eastman Kodak (part of a reduction plan with a target of 13,000), as well as American Airlines (which underestimated the number of employees who would apply), Arco, Bank of America, Firestone Tire and Rubber Company, Phillips Petroleum, Atlantic Richfield . . . and so on.

EMPLOYER BEWARE

Employers should be aware that early retirement windows have legal dimensions. Because the programs encourage older workers to terminate employment, a poorly managed program can create potential violation of the Federal Age Discrimination Act. Court decisions to date, however, support the employer's right to open these windows, provided the plans are clearly communicated, the employees have adequate time to consider the options, and the decisions are voluntary.

If the window is open for only a few days, as is the situation in *Paolillo, et al v. Dresser Industries, Inc.*, the employees may feel coerced. The U.S. Second Circuit Court of Appeals has refused to grant the employer's motion for summary judgment (that is, the employees have a case and the litigation can proceed). In the court's opinion, the short window period, the length of service of the employees involved, and the complexities of the options, taken together, suggest that the employees may not have had sufficient time to make a considered choice.

In Henn, et al v. National Geographic Society, 4 of 12 advertising salesmen accepting early retirement subsequently brought suit, alleging that the employer had put them under undue pressure and "made life miserable," such coercion representing a "constructive discharge." In this case, the court upheld the employer's motion for summary judgment, noting that (1) in sales work, pressure comes with the territory and (2) all 4 employees were at risk for discipline or discharge on the basis of sluggish performance.

Critics of early retirement cite several drawbacks. First, it places personnel decisions in the hands of employees, opening the door to potential unwanted gaps in management know-how. Second, it creates an "inequity" by offering special benefits to a limited number of individuals. Moreover, say some, it forces persons who are too young to retire (in their 50s) into roles they are not prepared to cope with. Organizations offering early retirements argue that it offers alternatives and options to individuals and has positive effects on the morale of the remaining workforce.

The down side is the effect on a organization's economic footing. Although it releases the higher paid employees from the payroll (reducing individual cost liability), the long-term accrued costs may actually increase. This can effect the solvency of the pension system. (The Big Six U.S. steelmakers now face approximately $12 billion in unfunded pension liabilities, the result of plant

closings, according to *Newsweek*.) Solvency is becoming a significant issue, with the current and future trends projecting a leveling off and/or a decrease of the available labor pool in addition to an increasing average mortality rate.

Job redeployment and/or retraining. Two separate programs, similar only in that both focus on retaining employees. Forty one percent of our respondents would "likely use" either or both for nonexempt employees, 36 percent for exempt employees.

Job Redeployment. A practice designed to locate jobs within the company for displaced employees. Often, particularly in the case of large multistate companies, this option involves relocation to a different geographic area.

By far, salaried employees are extended redeployment alternatives over hourly employees, whose skills tend to be more narrowly focused. Should employment opportunities exist at another site, the employer is likely to find nonexempt employees in that geographic area to answer the needs. In addition, hourly workers tend to be rooted in certain geographic areas and are less likely to want to relocate.

It makes good business sense to retain individuals who have been productive, loyal, and possess marketable skills. The extent to which a company is willing to pay relocation allowances often becomes a key consideration. Relocation assistance can range from payment for moving expenses, transportation, and temporary living all the way up to complete coverage, including payment of realtors' fees, closing costs, points, and additional "curtain money" (lump sum to pay for initial basic household expenses).

Most companies attempt to make this a first option for salaried employees, especially those on the management level. Some companies, such as IBM, will even guarantee the first right of their displaced employees for other in-company opportunities.

Retraining. These opportunities concentrate on teaching marketable skills. These can be as simple as updating current skill levels to market standards (for use within the company or in other industries) or as complex as training in new areas for positions in technical fields.

The average time frame for a retraining program varies between four and six months—even longer for more sophisticated training. Training for positions in service industries and allied health, computer and electronic technologies (fields that provide the most potential in terms of future opportunities) is advantageous for hourly employees. Although very few pursue academic education, short-term, concentrated courses in certain skills (soldering and word processing, for example) may be helpful in creating opportunities.

Some experts estimate that at least 80 percent of available retraining funds used in a downsizing benefit hourly employees. The reason: hourly workers represent the largest segment of the workforce lacking transferable skills.

In the manufacturing sector, it is the exempt employees who have the greatest difficulty securing compatible or equivalent employment. These middle management positions are being replaced by self-directed workforces or eliminated by simply reducing the number of managers and giving

increased responsibility to those remaining. Many of these middle managers earned their promotions through work experience, not with degrees. When laid off, placement in a comparable position becomes difficult, not only in other organizations, but often within the same organization. Retraining is one option that can help these employees upgrade their knowledge to a competitive level.

In any extensive retraining program, cost is an overriding variable. For example, the average cost for a vocational training program in the Baltimore, Maryland, region is more than $3,500 per employee/per program. Therefore, training for 100 employees would exceed $350,000. Not many companies can afford this type of capital outlay. As a result other resources become important, particularly training sponsored by the federal government (that is, under the Job Training Partnership Act (JTPA), Title III Dislocated Worker Grants, Trade Adjustment Assistance).

The success of retraining is measured in the end results: type of new employment and its relation to the training, new employment wages, length of time in the job search, and training costs, in comparison to the costs incurred if the program had not been initiated.

Job Sharing and Part-Time Employment. "Likely used" by 37 percent of the respondents for nonexempt employees, 21 percent for exempt.

Job sharing or part-time employment provides one way to keep all employees on the payroll while reducing the total payroll liability. The success of the program depends on its ability to meet the income needs of the affected employees. It is difficult, at best, to implement for exempt career employees.

To implement job sharing, some organizations have first surveyed the workforce to determine how many employees would participate—and to what extent—after information on the potential reduction has been communicated. To make the option more appealing an employer can engage the surrounding business community, setting up a mechanism to develop other part-time job opportunities outside the organization.

To determine the success of the option, identify the number of valuable employees who participate in the program. Retention of those employees (during the difficult period) is the goal.

Voluntary Layoff. "Likely used" by 27 percent of the respondents for nonexempt employees, 17 percent for exempt.

This option is currently gaining popularity among both employers and employees. The plan offers all employees, or a select group, the option of volunteering to be laid off. Hourly/nonexempt employees, whose layoff situation is seniority based, usually take advantage of this option.

Why would anyone *volunteer* for a layoff?

The theory of voluntary separation is that it saves jobs for employees who prefer to stay. To make this option viable, the same entitlements and layoff benefits (severances, retraining, outplacement services, and so on) offered in an involuntary reduction are extended to employees who volunteer during the *open window period.*

(The open window period should be specified, allowing employees sufficient time to make informed decisions concerning the option—and the implications of accepting the option. The period should be far enough in advance of the actual layoff to give management adequate time to prepare for any necessary involuntary layoffs.)

Voluntary separation allows employees who wish to seek opportunities elsewhere the ability to do so, while retaining full benefit and recall rights. Those who prefer to stay are, in many cases, kept on board. The positive work environment resulting from offering this option creates high morale and productivity among the remaining workforce. Reduced layoff costs, due to the level of preparedness of the voluntary group (that is, other opportunities awaiting), are the key benefit: the savings are calculated in the unemployment compensation liability and long-term layoff benefit requirements, both reduced by the proactiveness of the volunteer group.

Caution is greatly emphasized. Employees need to be appraised of the realities of "losing their jobs," and a strong support mechanism must be in place.

The type and level of assistance available from the support structure is vital to the success of the option—since savings are measured by the number of employees who volunteer prior to the implementation of involuntary layoffs. The ideal support structure consists of a proper outplacement program, with a mix of services, including realistic assessment of individual skills, interests, and aptitudes; resume development; labor/job market information; interviewing techniques; job search skills; and retraining opportunities.

Outplacement Services. Sixteen percent of the respondents would likely offer this option, on a selective basis, to nonexempt workers; 40 percent would offer outplacement, selectively, to exempt employees. In addition, 26 percent would likely offer outplacement to all exempt and nonexempt employees. Details on selection criteria are discussed in Chapter 4.

Outplacement services are programs and services, in total or in part, that help terminated employees make transitions into new career opportunities.

The approaches and availability vary, from special several-day seminars and workshops on resume development, interviewing techniques, networking and job search techniques to comprehensive, long-term workshop series, job clubs, financial and personal counseling, and support groups (often located in a special center set up by the company). The programs often form links with services offered by government agencies (local, state, federal), nonprofit organizations, community colleges, state job services, unemployment insurance offices, and the like.

Organizations giving outplacement assistance to their employees usually fare better in terms of the minimal impact on business and subsequent disruption. Such support tends to foster a spirit of cooperation and camaraderie between leaving and remaining employees—even between management and workers. Outplacement services also provide managers and remaining employees with information on how they can help co-workers affected by the reduction. Indeed, managers and supervisors should be involved in the outplacement support. They were the key players—the motivators—during stable times and the key process implementers during upswings and growth. Logically, then, they have a role to play during the reduction. Most feel genuine concern for their employees; they want to help, but are often inhibited from doing so because they do not understand the issues, concerns, and emotions. Once trained in how to approach their employees, they can

become instrumental in assuring a smooth transition. All of this opens up the remaining workforce for future cooperation in restructuring, leading to a more efficient and productive workplace.

The type of service/program design that works best depends on the size and type of company, the nature of the displacement, the state in which the company is located, and the mix of the local economy. Programs should be tailored to the needs of the organization and its employees. Active job development based on information on the local job market is critical for all employees—hourly, salaried, professional, or executive. (Statistics show that approximately 85 percent of available job opportunities are never advertised. Thus, the importance of job development efforts.)

Criteria for measuring success include job placement rate, wage at placement, average time for placement, number of retraining enrollments, cost/placement and cost/positive activity (positive activity defined as job placement and bona fide training enrollment). Although these figures are available from outplacement firms, the statistics may be misleading. (Raw placement information is not sufficient; the other factors, as described above, have to be considered.) When figures are available, and evaluated, the success indicator is the amount of money saved through reduced unemployment compensation and company layoff benefit payments. Equally important (but less tangible) measures include the level of morale among departing employees and the esprit de corps among remaining employees, as well as the impact of these intangibles on productivity. This factor should be measured against the atmosphere before the layoff announcement, at various points during the reduction, and after the final layoff.

Extension of Severance Pay and Health Benefits Beyond Policy Provisions. Twenty-one percent of our respondents would likely offer severance pay beyond normal policy provisions to nonexempt employees; 33 percent to exempts. Thirty-two percent would likely extend health benefits to nonexempts; 38 percent to exempts.

Research conducted by various organizations shows that the formula of one-week's severance pay for every year of service has become basic (see Chapter 3.) For this reason, our short questionnaire asked if respondents were likely to make provisions beyond this standard. In the health benefits area, recent legislation mandates that the employer offer the departing employee opportunity to continue health care benefits. (In actual practice, this often means that the departing employee pays the premium, plus a small surcharge.) Again, we wanted to know how many organizations went beyond this minimal requirement.

Extensions of severance pay and health benefits are used in special circumstances—cases of unanticipated, sudden reductions, for specific employees, especially high-level managers (who tend to be more difficult to place at comparable salaries elsewhere) and long-term employees (during difficult economic periods or in depressed geographic regions).

This is a proactive policy, particularly for managers who are accustomed to specific salary levels and standards of living. The rule for time allowance in locating employment is to add a month of search time for every $10,000 of salary increment, above $20,000, of a manager's annual compensation. For example, a person earning $60,000 will require four months' search time, during which time he or she would continue to receive benefits. Extensions of severance and health plans allow the managers/salaried personnel the necessary time cushion to actively search for new employment opportunities.

Success would be determined by the time period that it took managers to locate other employment. Also, salary level of position, total compensation package, level of position, responsibility, and growth potential should also be considered.

Salary Reductions Across the Board. "Likely used" by 23 percent of respondents for nonexempt employees, 26 percent for exempts.

Companies that implement across-the-board salary reductions do this to stay competitive in the market, although, as history has shown, reductions usually occur in the end. The option requires trust between management and employees, with the understanding that:

1. It is a necessary step in order to compete and save as many jobs as possible,
2. That once the wage structure levels out and becomes competitive with the market, new increases will be considered, and
3. A percentage of any unanticipated profits will be put into a pool for employee benefits, incentives, and pay adjustments.

It is imperative that all levels of employees, including management, share equally in any salary reduction effort.

Many individuals feel that there are more viable cost-control options: freeze salaries, reduce unnecessary overhead, renegotiate with vendors, increase employee responsibility, slow down repair schedules, initiate work sharing, and so on.

Union-Management Committees. "Likely used" by 8 percent of the respondents for nonexempts; 4 percent for exempts.

Union-management committees usually form when government funds are available to run full-scale outplacement programs. The success of these negotiations requires compromise, on both sides, toward the objective of helping displaced employees.

The committee needs to agree on the outplacement service and program design, location, administrative entity, and the like from the onset. Companies that have organized an oversight and governing committee to guide the direction of a workers' assistance center have met with success. The committee should have equal representation, with voting members from management, union, and local or state government; the committee is responsible for setting all policy, evaluating progress, and administering neutral funds (that is, government resources). Both management and union should maintain control of their own funding contributions, and the staff of the center should be jointly selected.

The key to a cooperative and equal sharing effort is a clear understanding and sense of mutual interest with a common denominator. Initially, problems of turf and power need to be overcome, with the emphasis on the *common denominator of helping the laid-off employees.*

Also, regardless of whether the workplace is a union or nonunion environment, it is a good idea to set up an advisory committee of employees, consisting of both salary and hourly employees, to provide input into outplacement programs and to promote employee involvement. Advisory committees act as a sounding board and as a direct link between outplacement services and

displaced employees. The formation of such a group can be extremely beneficial to the credibility of outplacement services and programs to the employee population.

Renegotiation of Union Agreements. "Likely used" by 12 percent for nonexempt; 4 percent for exempt.

Most companies and unions prefer not to renegotiate union contracts. Many contracts with larger companies and unions are national and, as such, not renegotiable locally. However, there are usually local supplements that can be adjusted when necessary. They include issues or factors controlled and affected by local economics and labor conditions, including layoffs, recall rights, and promotional systems.

The cornerstone of most union layoff provisions is seniority: last in, first out. It is usually in the best interest of the union to maintain this provision: Long-term employees tend to be loyal and active in the union. This provision, however, can be renegotiated in favor of reverse seniority. From a company perspective, the latter option saves money through diminished retraining requirements. By reversing the trend, the company retains the younger (lower salaried) employees, while older employees (who are most likely to take advantage of retirement opportunities) are laid off.

CASE STUDIES

As the foregoing percentages suggest, the respondents would "likely use" more than one program in dealing with a workforce reduction. A responsible approach would call for a combination of initiatives, based on the age profile of the workforce, the types of skills involved, job opportunities available at other company locations, and a variety of other factors. Recent experiences at General Electric Company suggest that many of the initiatives (retraining, job redeployment, outplacement) can be effectively managed under the auspices of a "re-employment" center—with union involvement in the planning and managing of the center, when applicable.

The phase out of the microwave oven production function at the General Electric Columbia, Maryland, plant eliminated close to 900 jobs over the course of 18 months. These 900 jobs represented 50 percent of the workforce; the other 50 percent continued employment in its electric range division. The initial reductions (200 in June 1985 and 300 in September 1985) resulted in a handful of voluntary layoffs. When early retirement was made available, over 90 percent of those eligible for the plan took advantage of it. In terms of the total reduction, this represented 10 percent of the affected workforce.

With the opening of the Re-Employment Center (fully operational in the summer of 1985), a dramatic shift in the nature of the layoff occurred. After the September 1985 reduction, virtually all future layoffs of hourly workers were voluntary (approximately 400 employees). Company management attributes the activity at the Re-Employment Center and its retraining capability as the primary reason for the shift.

Approximately 350 employees were retrained, at a cost in excess of $750,000. As a result of careful planning, assessment, and advocacy, most of the cost was covered by the Trade Adjustment Assistance program (TAA), which provides retraining funds for workers whose jobs are affected by

foreign competition. Statistics based on national studies conducted by the U.S. Department of Labor indicate that less than 6 percent of the eligible TAA employees take advantage of retraining opportunities. At GE that figure was 50 percent. Participation at the GE plant was attributed to a strong support and advocacy mechanism, with intensive assessment and counseling services provided by the Re-Employment Center. The center set up career fairs inviting various training schools and community colleges to discuss their programs. Also, the Re-employment Center staff set up information tables and audio/visual presentations on a regular basis at cafeterias and other places where employees congregated. These presentations focused on helping employees understand and gain access to the center's resources. The staff's emphasis on bringing the programs and services to the employees greatly enhanced training participation.

The Columbia effort on job development uncovered more than 1,500 jobs for a displaced, nonexempt group of 400. Compare this with GE's Aerospace Business Group project in Lanham, Maryland, where over 500 jobs were located for the 150 professionals and executives affected in its reduction. The differences between the type of businesses and the workers affected in these reductions (Columbia represented the manufacturing industry/blue collar worker, while the Lanham Aerospace Business Group consisted of executives from the space and high-technology area) proves the versatility and effectiveness of an outplacement service for organizations facing a reduction in force.

General Electric Turbine Operations, Lynn, Massachusetts, has a joint union-management committee program and receives a substantial amount of government financing. The workers' assistance center has two coordinators, one from each sector, management and union, working in tandem to supervise staff, design programs, and submit reports concerning its progress.

General Electric, Pittsfield, Massachusetts, set up a joint union-management venture for the oversight and administration of a workers' assistance center. The center is uniquely structured as a private nonprofit corporation, the first of its kind in Massachusetts. In fact, the GE center in Lynn has been patterned after the "Pittsfield model."

The center in Pittsfield is officially called the IUE/GE Training and Development Center, Inc. Set up to administer the federal funds (JTPA, Title III), and run the day-to-day operation, the board of directors consists of six people (two management, two union, and two co-directors for the center's operation). The co-directors, who share equally in responsibility and authority, represent management and union. The arrangement is working successfully to date, with the directors sharing daily responsibilities commensurate with their own strengths, experiences, and abilities.

General Electric, of course, is not alone in the use of a union-management committee to oversee job development and outplacement. Bethlehem Steel, Baltimore, Maryland, formed a union-management committee to guide and evaluate its outplacement programs and activities. The committee consists of representatives from labor, management, and the Maryland Department of Economic and Employment Development. A director, chosen by both union and management, was selected to oversee the project, and union peer counselors were recruited to provide counseling and guidance to the affected employees. The program has proven to be successful and continues today in an ongoing effort to assist current and long-term displaced employees.

3

Layoff Policies

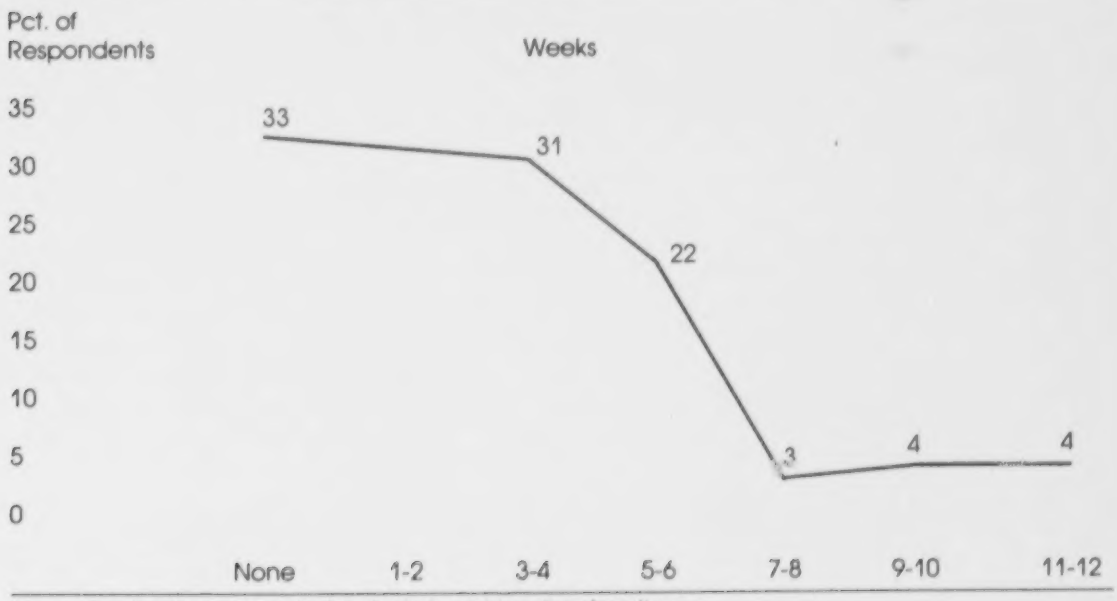
THIS CHAPTER looks at some of the more specific aspects of downsizing: length of notification, day of the week notification is given, and types of severance packages generally offered. Answers to the first two areas come from AMA research. The last area—types of severance benefits offered—has been adequately researched by other organizations. The closing section for this chapter summarizes that research.

LENGTH OF NOTIFICATION

The issue of advanced notification of a layoff continues to claim national attention, with legislation now pending that would impose minium standards nationwide. The timing is especially important when large-scale layoffs or plant closings are involved. The Department of Labor feels strongly that short-term layoffs have severely crimped efforts to establish retraining programs and other forms of public sector assistance. At the same time, business lobbyists have resisted regulation, fearing that early notification of a layoff would diminish productivity, complicate arrangements with vendors, and curtail orders from customers.

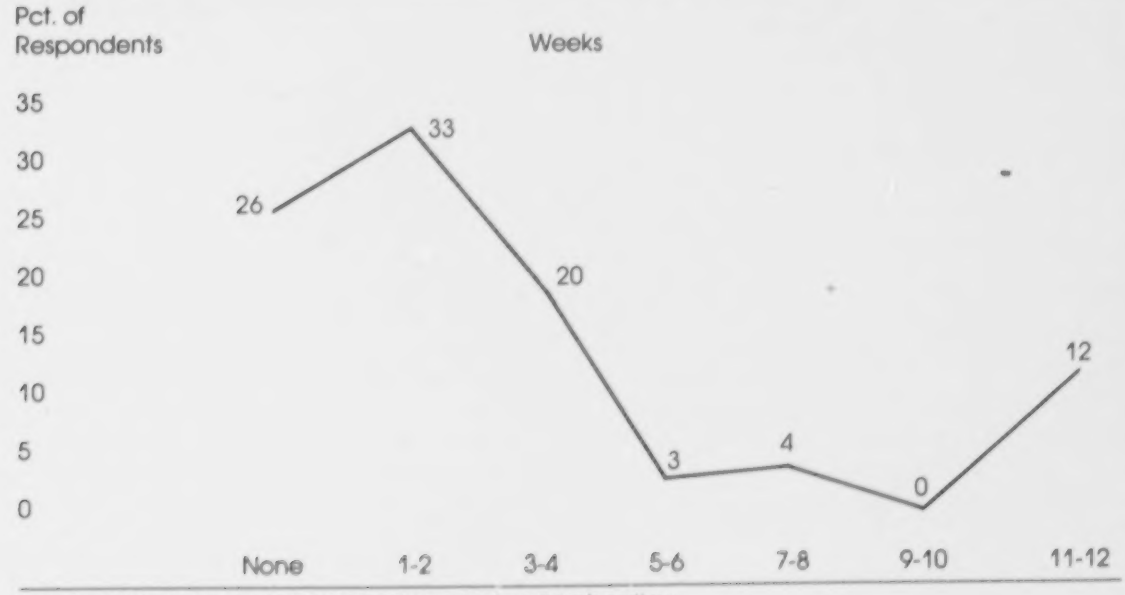
Our questionnaire put the query this way: In the event of a planned reduction in force, what is your standard advance notice of termination? Exhibits 3.1 to 3.4 show the results.

Exhibit 3.1. Weeks notification for reduction in force.



Note: n=865. Additional respondents indicated variable policies/practices.

Exhibit 3.2. Weeks notification—layoff of more than 100 workers.



Note: n=107. Excludes respondents indicating variable policies/practices.

Exhibit 3.3. Layoff notification (in weeks) by company size.

	Small	Mid-sized	Large
Mode	0	0	2
Median	2	2	4
Average (mean)	3.2	3.5	6.2
	n=423	n=289	n=116

Exhibit 3.4. Layoff notification by industry category.

	Mnftg.	Service - For Profit	Service - Nonprofit
Mode	0	0	4
Median	1	2	3
Mean (average)	2.4	3.5	5.2
	n=373	n=396	n=311

At first glance, the findings may be disturbing. About one-third of the respondents give no advance layoff notice. The event is sudden—clean out your desk and don't report to work tomorrow. This was the most frequent answer (mode) for both small and mid-sized respondents. The second most frequent answer was two weeks' notification; thus, the median (midpoint) comes out at two weeks. There are, however, exceptions—respondents that gave 6 weeks' notice, 8 weeks', and in a few cases, a full year's notice. This pulls the average (mean) up, as shown in Exhibits 3.3 and 3.4

The numbers are, however, somewhat less disturbing when one considers the number of workers affected by each notification period. The larger the downsizing, the longer the notification period. One respondent with a past reduction of 40,000 and a future reduction of 30,000 routinely gives 4 to 6 weeks' notice. Of our total database (173,800 workers):

Only 16,000 received immediate notification of layoff
54,000 received 1 to 3 weeks
40,000 received 4 to 6 weeks
8,000 received 7 to 9 weeks
43,000 received 10 to 12 weeks
5,000 received more than 12 weeks

For the remainder (about 9,000), policies varied.

Length of notification, then, also correlates with company size, as shown in Exhibit 3.3. Note (Exhibit 3.4) that the service sector respondents generally give longer notification periods than do the manufacturing companies. The nonprofit service respondents average about 5 weeks.

The most common day of the week for notification of layoffs is Friday. See Exhibit 3.5.

Exhibit 3.5. Day of the week layoff notice is given.

Day	Percent
Monday	15
Tuesday	4
Wednesday	8
Thursday	3
Friday	37
Day varies	34

Notes: n=741. Respondents not answering excluded.

A SPOONFUL OF SUGAR

Severance pay can sweeten the bitter pill many employees are forced to swallow when layoffs occur. Most employers offer it, but benefits may not apply across the board. A recent Bureau of National Affairs (BNA) survey reports that 82 percent of their 191 respondent companies had paid severance for layoffs at some time. Of respondents with formal plans (six out of ten), 93 percent pay for layoffs due to economic reasons. Similarly, the Conference Board reports that "out of 131 companies surveyed by Goodrich & Sherwood, 118 have a policy for salaried employees, and 63 have one for hourly employees."

The most common configuration* of severance benefits provided by companies surveyed by BNA is:

1. The majority of companies (59 percent) have a formal severance benefits plan for layoffs or terminations. The plan forms part of the company's established personnel procedures. Large companies are more likely to have such plans (65 percent) than small companies (54 percent). Exhibit 3.6 shows the various arrangements companies make regarding severance benefits.

2. The majority of plans (58 percent) cover all groups of employees. In those companies with selective plans (46 companies, or 42 percent), production/service workers are the groups most likely

*This information, except where otherwise indicated, is derived from BNA's sample of 191 companies selected from among members of its 1985-1986 *Personnel Policies Forum* during the first three months of 1986. Of the 191 respondents, 52 percent were manufacturing firms; 29 percent were nonmanufacturing firms (for-profit service firms) and 19 percent are described as "nonbusiness" establishments (not-for-profit service organizations). Fifty-two percent had fewer than 1,000 employees ("small companies") and 43 percent had 1,000 or more ("large companies"). The data given here on severance benefits refers to companies with formal severance pay plans, 112 organizations in all.

Exhibit 3.6. Severance pay arrangements used by surveyed employers.

	All comp. (191)	Mft. (99)	Nonmfg (55)	Nonbus (37)	Large (83)	Small (108)
Formal, ongoing severance pay plan	59%	63%	53%	57%	65%	54%
Benefits provided at management's discretion on a case by case basis	38	39	42	27	34	41
Special one-time plan used for major layoff or plant closing	19	25	11	14	25	14
Employment contracts with individual managers (golden parachutes)	12	11	13	14	14	10
Employment contracts with individual non-management employees	3	2	2	5	2	3
Supplemental unemployment benefits (SUB) plan	3	4	2	—	5	1
Company does not pay severance benefits	18	13	18	30	17	19

The Bureau of National Affairs, *Severance Benefits and Outplacement Services*, PPF Survey No. 143, December 1986.

to be excluded. Only 13 percent of companies with selective plans reported that production- or service-level employees receive benefits.

3. Most plans (61 percent) have a minimum length of service requirement for eligibility. The most common minimum is one year. The BNA breakdown is:

- 39 percent have no minimum
- 28 percent require one year of service for eligibility
- 15 percent require six months
- 9 percent require 3 months
- 9 percent have some other minimum

4. Virtually all compute benefits on the basis of length of service.

- 35 percent pay one week's salary per year of service
- 4 percent pay some other amount per year
- 5 percent pay two weeks' salary per year
- 29 percent pay according to a schedule based on length of service (and may take age and level in the organization into account)
- 13 percent have fixed salary benefits of one to two weeks' pay
- 6 percent determine benefits on a case-by-case basis

The Conference Board reports a similar finding: 122 companies out of the total 131 listed "years of service as the primary condition for determining severance pay." In its sample, nearly 40 percent considered organizational level as part of their computation.

The Redford Group surveyed 219 (total number of respondents from 1,040 mailings) medium and large companies, mostly *Fortune* 1000s. This survey reports years of service as a "major criterion in computing severance pay percentages." Ninety-four percent of their sample use it for exempts and nonexempts, and 83 percent use it for executives.

5. About half (51 percent) provide benefits in a lump sum. Others pay in installments (22 percent); 27 percent allow employees a choice between the two.

6. Most (61 percent) specify a limit on the total benefit that can be paid. Maximum limits in the BNA sample ranged widely, with the most common being:

- One year's pay (11 percent)
- Six month's pay (11 percent)

GOLDEN-AGERS

The Redford Group concludes that "by and large, most companies do not put a premium on age in calculating severance." In its study, only 15 percent of companies reported that they use the employee's age as a factor in computing severance pay. BNA reports that 3 percent of responding companies use age in their benefits formula; the Conference Board cites age 40 as the cutoff point above which employees sometimes get larger severance payments.

PERKS FOR EXECS

Twelve percent of BNA's responding companies reported that they maintain "golden parachute" provisions through contracts with high-level employees. Top executives are eligible for severance pay at 27 percent of the 46 firms in the BNA sample whose plans don't cover the entire workforce.

According to the Conference Board, half the companies surveyed by Goodrich & Sherwood pay corporate officers by the same severance formula as they do salaried employees. The remaining 50 percent get from two week's to one year's pay. Other benefits — use of office space, secretarial help,

and the company car and stock redemptions—are usually continued, according to the Conference Board. Out of the BNA sample, three generous companies make up the difference in pay between a corporate officer's new position and the old one, if the new pay is less.

Exhibit 3.7 summarizes the circumstances in which companies provide severance benefits as reported by BNA. Exhibit 3.8 gives The Redford Group's findings.

Exhibit 3.7. Circumstances and eligibility for severance benefits

	All comp (112)	Mfg (62)	Nonmfg (29)	Nonbus (21)	Large (54)	Small (58)
Circumstances in which severance benefits are provided						
Discharge or permanent layoff for economic reasons	93%	94%	90%	95%	91%	95%
Discharge for poor job performance	33	39	31	19	26	40
Discharge for disability	12	16	—	14	11	12
Voluntary resignation	8	6	7	14	6	9
Retirement with pension	7	8	—	14	7	9
Retirement without pension	6	10	—	5	6	7
Elimination of position	5	2	10	10	4	7
Discharge for misconduct	5	6	7	—	6	5
Other	8	8	10	5	7	9

Exhibit 3.7. Continued

	All comp	Mfg	Nonmfg	Nonbus	Large	Small
Severance plan covers						
All employees	58	42	72	86	61	55
Some employees	41	58	28	10	39	43
No response	1	—	—	5	—	2
Minimum service required for severance pay eligibility						
None	39	44	34	33	43	36
One year	28	27	14	48	26	29
Six months	15	11	31	5	22	9
Three months	9	11	—	14	6	12
Other	9	6	21	—	4	14

The Bureau of National Affairs, *Severance Benefits and Outplacement Services*, PPf Survey No. 143, December 1986.

Exhibit 3.8. What guidelines do/would you use to compute your severance pay package?

	Nonexempt (percent)	Exempt (percent)	Executive (percent)
Years of service	94	94	83
Level of position	14	29	54
Age	16	19	16
Age + yrs. of service	13	13	14
Salary	31	34	32
Other	14	6	8

In computing severance pay packages for each of the three categories, responding companies cited years of service most frequently. Level of position was more than three times as important for executives than for nonexempts and nearly twice as important for exempts.

The Redford Group Inc., *Attitudes and Preferences on Severance and Outplacement Counseling*, May 1986.

STICKIN' WITH THE UNION?

Do unionized companies get a better deal vis-a-vis severance allowances than nonunion companies? According to the BNA report, "Union status does not seem to affect greatly the likelihood that a firm has a particular severance benefit." Of the companies sampled, 45 (out of the total 191) were unionized. Of these, only 13 companies (29 percent) had negotiated severance plans with a union.

Strikingly,

- Nonunion organizations are more likely to pay severance (86 percent) than union companies (77 percent)
- More nonunion companies (40 percent) give severance pay to employees fired for poor performance; only 22 percent of unionized companies do so.
- Half (51 percent) of the nonunion firms allow immediate eligibility, whereas only 22 percent of the unionized companies waive length-of-service requirements for eligibility.

4

Preparation and Job Security

The scenario: a company has just lost a major contract, meaning a halt in production of one of its products. The result: 500 employees who may be out of work. How well is the company prepared to handle this?

This was the question we posed to our respondents, asking them to evaluate their preparedness on a four-point scale: "very well prepared," "well prepared," "not well prepared," and "poorly prepared." The 1,112 responses to this question tended to fall in the middle, between well and not well (43 and 33 percent, respectively). See Exhibit 4.1.

In terms of company size, larger companies have a definite advantage over small and mid-sized companies, with a combination of "very well" and "well" equaling 72 percent, versus 47 and 58. See Exhibit 4.2. While in terms of category, manufacturing and service for profit companies (57 percent and 54 percent) have more of the machinery in place to handle a reduction than the nonprofit sector (48 percent). See Exhibit 4.3.

"Preparedness" can, of course, carry different meanings for different respondents. For some, it may mean nothing more than having layoff policies in place: severance pay guidelines. For others, it may mean having a retirement policy worded in such a way that an early retirement window opens easily, with sufficient money in the fund to cover the costs. (IBM's 1986 downsizing, affecting 14,000 workers, is a case in point.) Our researchers postulated that "prepared" companies would have a higher likelihood of implementing the various "cushions and windows" listed in the questionnaire. Indeed, the correlations exist. For nonexempt employees, these relationships are statistically significant (.05 level of confidence):

Exhibit 4.1. How well prepared were you to initiate a reduction in force?

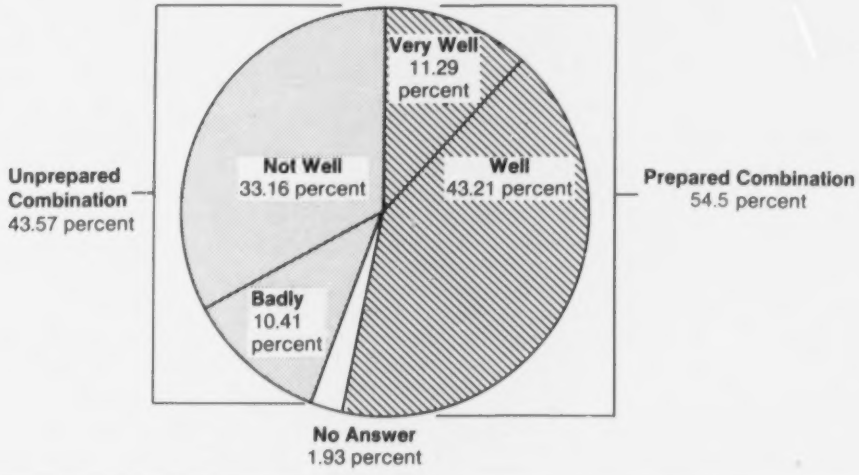


Exhibit 4.2. Preparedness for future downsizing, by organizational size (percentages).

Size	Very Well		Well	Not Well		Badly
Small combinations	9.82	46.61	36.79	38.04	51.25	13.21
Medium combinations	10.19	57.55	47.36	31.96	40.50	8.54
Large combinations	17.42	72.26	54.84	21.94	26.46	4.52

Exhibit 4.3. Level of preparedness, evaluated by company category (percentages).

Category	Very Well		Well	Not Well		Badly
Manufacturing combinations	3.21	57.15	43.94	32.61	41.24	8.63
Service - for profit combinations	12.85	54.92	42.07	30.98	43.07	12.09
Service - nonprofit combinations	7.40	47.91	40.51	37.62	49.52	11.90

Job redeployment/retraining. Likely used by 42 percent of the "well/very well prepared" companies, vs. 29 percent of the "not well/badly prepared" respondents.

Voluntary layoff. Used by 28 percent of the "prepared" companies vs. 18 percent of the others.

Outplacement services, both selective and for all nonexempt employees. A spread of 10 percentage points in both.

A correlation of marginal significance emerges with the early retirement incentive (used by 31 percent of the "prepared" companies vs. 26 percent of the others.) In the exempt employee category, these relationships emerge:

Early retirement. Likely in 45 percent of the "well/very well prepared" companies vs. 39 percent in the others.

Job redeployment. Thirty-eight percent vs. 25 percent.

Voluntary layoff. Eighteen percent vs. 11 percent.

Outplacement for selected exempt employees. Forty-three percent vs. 24 percent.

Outplacement for all exempt employees. Twenty-seven percent vs. 17 percent.

The last two correlations, taken together, indicate that prepared companies are far more likely to offer some type of outplacement to exempt employees: 70 percent vs. 41 percent.

In addition, prepared organizations are slightly more likely to extend health benefits beyond normal policy provisions to both exempt and nonexempt employees.

Our list was by no means exhaustive, and respondents indicated other types of provisions: among them, the extended use of temporary employees prior to the reduction and workforce leasing provisions. Moreover, preparedness can take on an entirely different dimension: ongoing and systematic planning and evaluation, a continuing effort to keep the organization trim and flexible.

GETTING LEAN, STAYING THERE

A recent AMACOM book, *Downsizing: Reshaping the Corporation for the Future,* by Robert M. Tomasko, takes a thorough-going look at the phenomenon of "getting and running lean," fast becoming a way of life among U.S. corporations. Some do it well, some do it badly, according to Tomasko. If there is one guiding principle governing effective downsizing, it is a familiar one: Be prepared.

Downsizing focuses on two aspects of corporate cuts—prudently pruning bureaucracy and eliminating overlayered management structures. Forced "demassing" (in the vocabulary of outplacement specialists, a wholesale reduction of managerial personnel) can have unforeseen and dire consequences. Often called "middle management massacre," it is part of a trend to trim

excessive midsection spread in a company's size and shape. More often than not, demassing is a quick and painful response to crisis.

LEARNING FROM SUCCESS

Planned downsizers are able to minimize the human cost of layoffs and avoid some of the long-term pitfalls. Tomasko suggests five principles, gleaned from study of a large number of successful downsizers:

1. *Start before you have to.* Preparation is the crux.
2. *Prepare for the down side.* "Mean and lean" calls for a new management style, a change that doesn't come easily to everyone; the best downsizers prepare for this. At some companies employees participate in company efforts to find alternatives for cost cutting. Creating a team spirit keeps morale up. Most important, new practices have to be introduced to support the company's new style.
3. *Use a rifle, not a shotgun.* Don't make across-the-board sweeps. Target downsizing efforts toward particular groups or units of employees—planned downsizing means strategically eliminating jobs on the basis of the results you are seeking.
4. *Continually manage size and shape.* Allow for ample lead time should downsizing become unavoidable; look for internal and external signals—downturns rarely come without warning. Track employee surpluses at headquarters and all divisions.
5. *Go after more than costs and jobs.* Tie the process to long-term strategic plans that tell you what you want to achieve (in addition to cost savings) through the downsizing.

TRIMMING STAFF

Finding the "competitive value added" by staff employees and departments gives downsizers a means of determining which functions it can do without with the least detriment to operations. Tomasko suggests a number of ways to pinpoint excess staff (as opposed to line). These tactics adamantly avoid "head count" approaches, which are deceptive in terms of gain and can leave a company vulnerable. Often, such chopping is myopic and causes downsizers to miss the real problems. Each technique offered by Tomasko has strengths and weaknesses. No single technique, used alone, is adequate (that is, they must be used in combinations, as deemed appropriate). Let's look at two of these techniques, both related to the concept of value added.

Staff Value-Added Analysis

This technique solicits feedback from internal "customers" to find out how well a staff unit is doing. It has the advantage of "depersonalizing" staff cuts by using the cost of end products as a measure to pinpoint reduction targets.

1. Identify staff units considered appropriate for reduction.
2. Develop a statement of purpose for each department and a list of all the activities carried out by each. Be as precise as possible, since covering every product and service that falls within a department's bailiwick is the key to effective use of this technique.

3. Specify the products or services generated by each activity.
4. Identify the recipients of each product.
5. Estimate the total cost of producing each item. In many staff situations the product or service is done for internal customers, and is salary-related. Thus, the cost can be approximated by estimating how much time per year the employee spends on this product. Figure the salary and benefits paid to an employee over this period of time. Add in any travel costs, equipment costs, and the like associated with the product.
6. Average such indirect costs as telephone and secretarial help per employee and add this to the product cost. Add up the costs per employee for each product, and the result at this point is a breakdown, product by product (service by service), of each department's annual expenditures.
7. Analyze the results to develop options for reducing the demand for each product or service, including its price, eliminating or modifying it, reducing its quantity, and so on. Often, a task force composed of both providers and "customers" makes these decisions. This is where company "customers" have their input, and where staff and line can sometimes meet head on. Rules and procedures for these discussions should be carefully thought out; support from upper management is crucial. The analysis results in a ranked list (according to savings potential) of products (or services) to be modified or cut back.
8. The list travels up the organizational hierarchy for suggestions and final decisions. If there are a great number of decisions called for, line managers carry the weight. A rule of thumb: choose the simplest way to achieve the best results (cost savings).

Reducing Management Layers

Paul Strassman, retired vice president for strategic planning at Xerox, has attacked the long-standing conundrum of measuring management productivity by applying a value-added concept to management activities. His ROM (return on management) is a productivity indicator that quantifies this often elusive business activity.

$$\text{ROM} = \frac{\text{Management value added}}{\text{Management costs}}$$

Management value added is defined as:

> the total value a company adds (what it sells its goods for minus production costs) – operating expenses

Management costs are defined as:

> Management salaries, bonuses, benefits, plus
> Management capital expenditures, plus
> Management cost of services purchased.

NOBLE IN REASON

Recently, sluggish computer sales have forced IBM to take measures to downsize. Its vigilance in monitoring both the marketplace and the "demographics" of its own personnel has enabled IBM to offer an early retirement program. The company expects the move to result in savings of more than $1 million a year and anticipates that 4,000 employees will take advantage of the program.

Thomas Watson, Sr., although humor was purportedly not his strong side, made a lot of "Think" jokes to both strengthen the IBM culture and bring attention to his company through its slogan. It was good PR. But, a serious man, Watson, Sr., and then Watson, Jr., meant it. They applied this noblest of faculties, thinking, to every aspect of the workings of the company.

IBM's no lay-off policy has become legendary. IBM did lay off a number of workers early in the Depression, but Watson called a halt to it. At the risk of bankruptcy, he refused, in the darkest years of 1933 and 1934, to lay off anyone.

Although the policy is not contractual, it is based on a moral commitment—on both sides. It is an example of the pragmatic results of reason fearlessly applied to the work situation. IBM's implicit pledge allows it to expect—and get—wholehearted cooperation from its employees. "People have to be willing to be retrained. And reassigned. And redeployed. And in some instances, though not all, relocated," says Tomasko. This is how IBM stays lean, and how it keeps its promise.

Tomasko outlines the procedures IBM applies when surpluses become apparent. The company does not necessarily use all the steps for every surplus; nor does it always follow the same order. The approach is always the same: size and distribution of personnel are carefully monitored on an ongoing basis, allowing IBM to use a critical element — time — to its best advantage. If a surplus does arise, IBM analyzes it: How large is it? How long do we think it will last. What areas of expertise does it involve?

Where possible, work gets shifted before people do. For example, production sites may be moved. In addition, the number of temps may be reduced, and overtime for regular employees may be curtailed. Interns, summer help, and the like are phased out, and employees are encouraged to take unused vacation time or leaves of absence.

A salary freeze may be initiated, and transfers to the facilities with surpluses are stopped. Attention is then focused on the sites with surpluses. Employees there are offered the opportunity to relocate (on a voluntary basis). White collar workers are encouraged to move to blue collar jobs. Early retirement options are made available. Many contracted services are brought in-house. Surplus sites are opened for recruitment by other facilities, and employees are allowed to opt for three possible alternative work sites. Some may be switched to lower level jobs, and some may be required to relocate.

JOB SECURITY

How ingrained in corporate culture is the idea of job security? The Japanese have created a working philosophy that treats employment as a lifetime commitment (although there are conditions to

every case), and IBM has always stressed that employee needs are met at all costs (a condition it is able to meet because of its extensive planning before economic downturns). But how does most of corporate America see job security and its value to the operation?

Our survey asked respondents to check which of the following statements best exemplified their company's position on job security:

A. Profitability is more important than job security; the realities of the marketplace control the company's ability to offer employment.
B. Job security is important, and the company will make reasonable efforts to retain employees during economic downturns.
C. Job security is important for morale and productivity; the company will do anything it can to avoid layoffs.

Exhibit 4.4 shows the results. Of our total sample (n=1,122), most will make a reasonable effort (B) to retain employees during economic downturns. Combined with those who said that their companies would do anything to avoid layoffs (C), there is an overwhelming tilt toward job security (83%). With regard to company size, there is very little discrepancy among the three categories, with smaller companies favoring job security (choices B and C combined) by 3 percentage points over mid-sized companies, and by 4 points over large companies (see Exhibit 4.5).

Exhibit 4.4. Corporate attitude on job security.

Percentage of whole sample

Attitude:

Profit is primary	Job security (reasonable effort)	Job security (at any cost)	Job security (combination)
16	53	30	83

Note: n 1,122. Totals do not add to one hundred because of exclusion of no answers.

Exhibit 4.5. Job security is an important element of corporate culture regardless of size.

Size	Job security	Profit Is primary
Small	85%	15%
Mid-sized	82%	18%
Large	81%	19%

note: n 1,070.

In terms of job security by industry, the split among the number of companies responding from the three distinct categories, manufacturing, service nonprofit, and service for profit, is fairly even. The most striking statistic shows that nonprofit service companies place an extremely high priority on job security (95 percent), 15 percentage points higher than both the manufacturing and service for-profit sectors, which both came in at 79 percent. See Exhibit 4.6.

Exhibit 4.6. Job security by industry (percentage of respondents checking choice B or C).

Category	Job Security
Manufacturing	79%
Service - for profit	79%
Service - non-profit	95%

Note: n=1,079, excluding 49 companies who identified themselves as 'other' than the above three categories.

It is curious to note that job security is given such high value in corporate America, where the need to make a profit in a highly competitive market does not appear to outweigh the appreciation of employees. And those in the nonprofit service category place a significantly higher value on job security.

Do They Really Mean It?

Or, to put the question another way, have companies that profess job security managed to avoid massive downsizing? The answer is yes. When questioned on whether or not they had experienced a downsizing during the past 18 months, 29 percent of the companies who rated job security as being a top priority were forced to lay off employees. In looking toward the future, only 9 percent foresee

Exhibit 4.7. How well have companies who are security driven resisted the trend toward downsizing?

Past reductions		Future reductions	
High security	Others	High security	Others
29%	52%	9%	21%

Note: n=1,133 for past reductions, and n=1,120 for future reductions.

any layoffs. (Compare this with the number of companies who went through a downsizing in the past year—45 percent of the sample—as well as companies who anticipate a reduction in force over the next 12 months—17 percent.)

Obviously, not all companies placing a high value on job security have been able to avoid downsizing. But the reductions have occurred (and will occur) far less frequently. See Exhibit 4.7.

5

Reductions in Force: The Why and The How

Companies that told AMA they'd downsized in the 18 months from January 1986 through June 1987 received a follow-up questionnaire in August 1987. That second instrument was more extensive than the first and probed more deeply into the reasons, procedures, initiatives, and costs involved in recent workforce reductions. A total of 210 companies returned that second questionnaire by September 1987, and they make up the sample for this chapter. Exhibit 5.1 presents a profile of the 210 respondents: 40 were large manufacturers; 25 were mid-sized manufacturers; and so on.

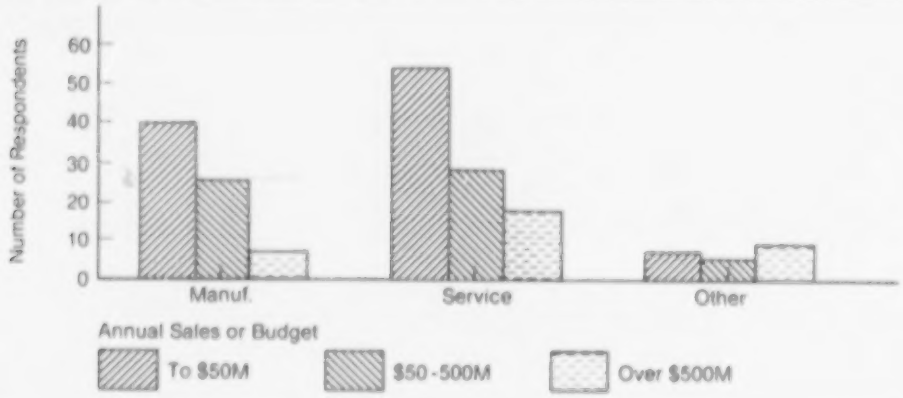
RATIONALES

While capital and labor are often cast as eternal foes, their relationship is essentially cooperative. Though amended by legislation, union contracts, and innumerable other factors, the laws of supply and demand still apply. Simply put, companies hire in good times, fire during periods of decline. Asked the reasons for recent reductions in force, the factor most frequently cited was a downturn in demand for a company's goods and services. Fifty-five percent of the repondents marked "product/service downturn" on the checklist provided.

There were no important variations by company size. Business category played a role: nearly two-thirds of the manufacturers in the sample downsized because of market factors, compared with roughly half of the service companies. Assembly-line workers are first to feel the effects of business contractions — but first to be rehired when things improve.

Close behind economic considerations came "improved staff utilization," cited as a reason for downsizing by 45 percent of the respondents. Here is statistical evidence for observable fact: downsizing has become an ongoing organizational activity, often independent of economic growth

Exhibit 5.1. Profile of 210 respondents that downsized.



or contraction. The figures hold across the board, showing no important variation by company size or business activity.

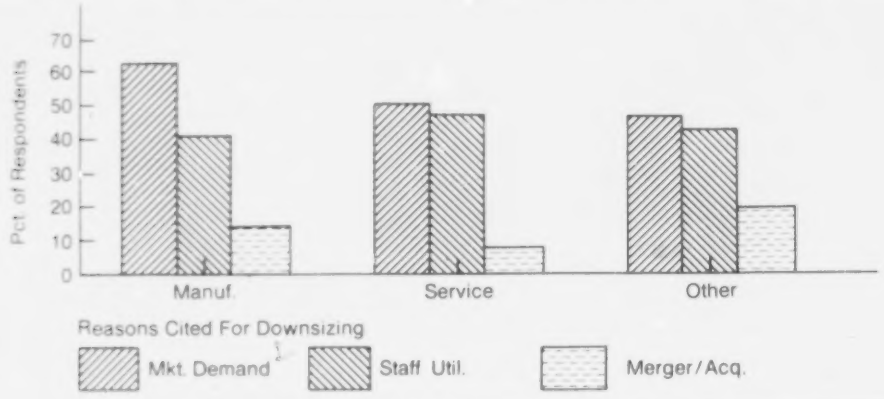
The phrase "improved staff utilization" covers a wide territory, but in essence it means fewer people working more productively. On the shop floor, it often means that machines perform tasks previously done by human hands. This would include robotics for product assembly and "expert" computer systems for quality control. But time and motion studies, better training systems, and financial remuneration based on product output rather than hours worked can and do improve blue collar productivity on the same old machines.

Information technology has an impact on white collar jobs. The task of the middle manager can be roughly defined as gathering and disseminating information. One manager with a desktop computer, especially a computer linked to others or to a central mainframe, can receive, study, and distribute information with a speed and efficiency impossible in former times.

But technology is not the only force at work. Management theory and practice also evolve. Today, senior managers are urged to "flatten" the organization, reducing the layers of management between top and bottom. Changes in reporting relationships make whole levels of management obsolete. Employing a "self-directed workforce" has a similar impact on supervisory ranks. Work groups that set their own work assignments and product quotas change the very nature of the front-line supervisor's job, allowing one supervisor a wider scope over more work groups.

The global reach of capital — the ability to hire offshore workers at a lesser salary than that paid domestically — is another consideration. An on-site survey at the AMA Sales and Marketing Conference in June 1987 asked conferees if they had moved into offshore sourcing, assembly, or hiring in recent years. A third of the manufacturers of industrial goods had done so, as had a fourth of the makers of consumer goods. A signal finding: 14 percent of the *service* companies polled were engaged in offshore hiring. One of the world's largest on-line database providers sends hard copy to Korea for keyboard input; the tapes are then sent back to the United States. Such activity has obvious implications for the hope that the service sector will provide more jobs as the industrial sector learns how to produce more and better products with fewer workers.

Exhibit 5.2. Why companies downsized. (N=210)



Mergers and acquisitions were a factor in 11.4 percent of the workforce reductions reported. Small companies were more likely to make such a report: one-fourth of the sample's small firms checked mergers and acquisitions as a reason, compared with 13 percent of mid-sized firms and 7 percent of large ones. Twice as many manufacturers (13.9 percent) as service firms (7.3 percent) downsized because of corporate marriages or takeovers, and mergers spurred a fifth of all force reductions by "others" (a category including diversified conglomerates). And these totals do not include jobs reductions in companies that, while fending off unfriendly takeovers, cut staffs or sold off units to pare down payrolls. Exhibit 5.2 shows the details.

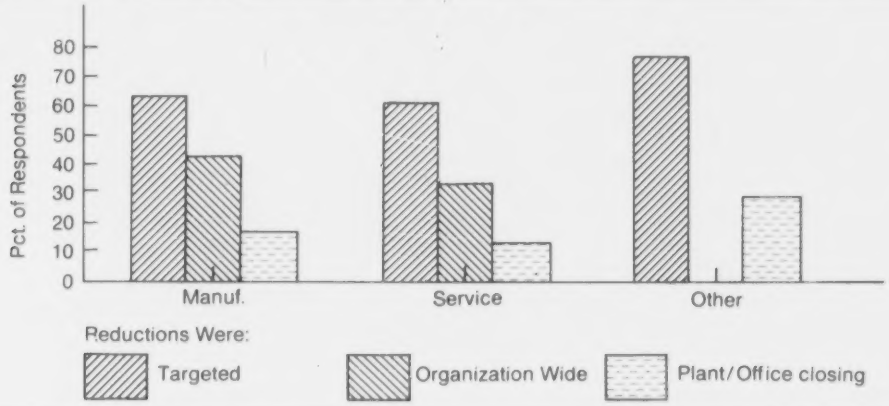
"Redundancy" is the watchword when separate entities become one. Here again, there is a special impact on management ranks. A separate study by *Management Review*, AMA's monthly membership magazine, identified a group of 300 companies that among them cut more than half a million middle-management jobs from 1984 through 1986. The "unprecedented wave of corporate mergers, acquisitions, and divestitures has made entire levels of management 'redundant,' " the January 1987 issue reported. "There is a consensus that middle managers and technical professionals—the exempt employees who fill the boxes on the organization charts between line management and officers—are among the hardest hit in this leaner, meaner business climate."

Very few respondents laid off workers because of aging or out-of-date facilities. Only 4 percent of the entire sample (and no large companies at all) cited "plant obsolescence" as a factor in recent workforce reductions. Though this is clearly more apt to be a concern of manufacturers, only 4 out of 79 manufacturing respondents checked "plant obsolescence" as a rationale for downsizing.

HOW WIDE AN IMPACT?

Obsolescence is not the only reason for shutting down a facility. Economic factors count, among them local wage structures, overseas competition, or simple loss of market share. Thirteen of the manufacturers in the sample, or 16.5 percent, said that the downsizing effort involved a total shutdown of one or more plants; almost as large a portion of the service companies (12.8 percent) said they had closed one or more offices when reducing staffs. See Exhibit 5.3.

Exhibit 5.3. How companies downsized. (N=210)



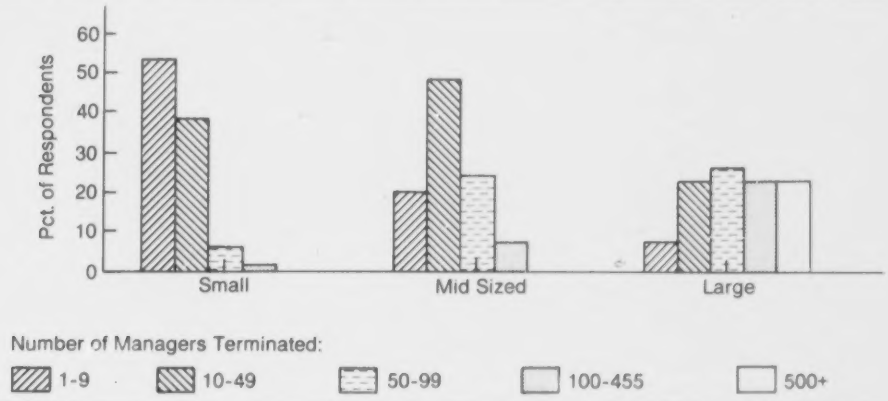
Much more frequently, staff cutbacks were aimed at specific functions or units within the organization: 63 percent of the sample cited "selective cutbacks" on a checklist asking how force reductions were targeted. There were some variations by size and function; three-quarters of the diversified conglomerates in the sample focused their reductions within specific organizational units, compared with 63 percent of the manufacturers and 61 percent of the service companies. But selective cutbacks were far more prevalent than across-the-board reductions affecting most corporate units.

This latter approach, where the entire organization feels the pinch, was taken by 36.7 percent of the respondents. Again, corporate size or function mattered somewhat: 42 percent of the manufacturers checked this option, 33 percent of the service providers; 30 percent of the large companies, 38 percent of the small ones. But these are not variations of large statistical significance. This finding in itself is revealing. The call to downsize is heard by companies of every size and type, and the response to that call varies little, whatever the product or service provided.

Variations do of course exist in the number of people and the number of worksites affected. Ninety percent of the small companies in the sample told us that their workforce reductions affected fewer than five worksites, compared to 70 percent of the mid-sized firms and 64 percent of the large ones. Sixty percent of the small firms said their downsizing affected only one worksite, compared to 27 percent of the mid-sized firms and 21 percent of the giants. But of course small companies have fewer worksites; these figures were anticipated. A more revealing finding: only one in five force reductions by large companies affected more than 10 work sites. This recalls a finding reported above: downsizing is more frequently targeted at specific plants, functions, or units than spread across the entire organization.

The average number of management, technical and/or professional jobs eliminated was 315. For hourly workers, the average was 389 jobs. In a sample of 210 respondents, averages are sharply affected by a few dramatic numbers. One billion-dollar firm eliminated 24,000 jobs in the period under study — and 80 percent of those cut were managers, technicians, or professionals. See Exhibit 5.4. Five of the 60 large firms in the sample cut more than 1,000 salaried employees and at least as many hourly workers. See Exhibit 5.5.

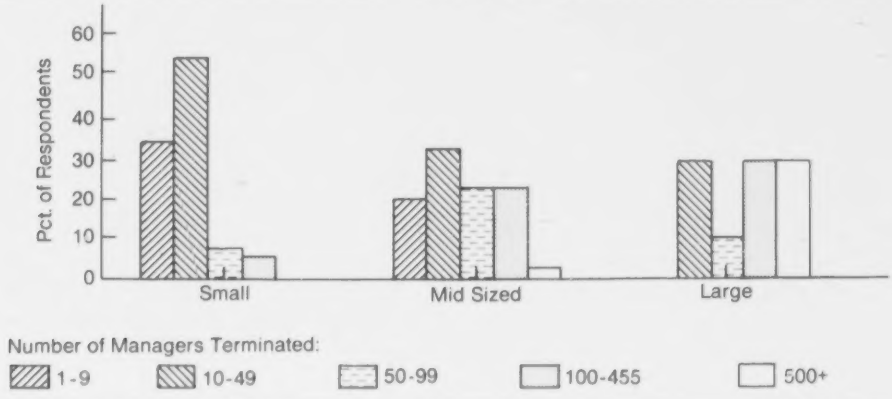
Exhibit 5.4. Management positions lost, by company size. (N=161)



It is far more instructive to look at the modes — the numbers most frequently reported — than the averages. *Nearly three quarters of the force reductions reported by AMA respondents affected fewer than 50 management positions. Only 11 percent affected more than 100 managers, technicians, or professionals.* The numbers for hourly workers are similar: 68.4 percent of the reductions involved fewer than 50 hourly positions, and just 19.6 percent saw more than 100 hourly jobs lost.

This is not to minimize the affect of downsizing on both the organization and the people whose jobs are lost. But it is a caution against the idea that recent downsizing has "decimated" the ranks. Twenty of the 63 manufacturers that gave AMA numbers cut fewer than 10 management jobs;

Exhibit 5.5. Hourly positions lost, by company size. (N=168)



another 25 cut more than 10 but fewer than 50; only the remaining 28.6 percent cut more than 50 managers. Among service providers that gave us figures, just 22.8 percent fired more than 50 managers.

The story is much the same among nonexempts. Only two manufacturers and four service companies cut as many as 500 hourly workers. The mode for the entire sample — 43.4 percent of those giving numbers — fell at more than 10 but fewer than 50 nonexempts terminated. True, 30 percent of the large companies cut more than 500 hourly positions, but more — 40 percent — cut fewer than 100 nonexempts.

Conclusion: the scalpel is in greater use than the meat ax. Far more force reductions are aimed at specific targets within a company than spread over the entire organization. Nearly half affect only one worksite. Only a fragment involve a total shutdown of a plant or office. And among both salaried workers and nonexempts, downsizing eliminates fewer than 10 jobs far more often than 50 or more.

ANATOMY OF A LAYOFF

Because there is no such event as a "typical" downsizing, generalizations about how many persons might accept early retirement, job redeployment, or leave voluntarily are difficult. The number of individuals responding to job redeployment, for example, would depend on the position availability at other locations, the geographical proximity of those locations, the degree to which the organization encourages and facilitates such transitions, and the like. Still, our researchers felt that some breakdown, however rough, might be instructive.

For this reason, we asked respondents to consider the number of individuals affected by the reduction, then break this number down into percentages of workers accepting various routes — outright discharge, early retirement, and other options provided on a checklist. The results for managerial and technical employees — considering only layoffs of 25 or more such employees — are depicted in Exhibit 5.6.

Exhibit 5.6. Options: managers, technicians, and professionals.

Option	Average percentage
Accepted early retirement	15
Reassigned to other jobs/locations	12
Left voluntarily	10
Other option (e.g., voluntary layoff)	8
Other — including normal retirement	6
Discharged/laid off	49

Exhibit 5.7. Options: Hourly workers.

Option	Average percentage
Accepted early retirement	8
Reassigned to other jobs/locations	8
Left voluntarily	12
Other option/window	10
Other attrition	2
Discharged/laid off	60

This is, admittedly, an apples and oranges comparison. On average, between 50 and 100 percent of the individuals to whom early retirement was offered accepted the window; this accounted, on average, for about 15 percent of the total reduction of managerial/technical employees. Four respondents, however, managed their reductions of managerial/technical staff totally through early retirements. The same type of range applies to virtually all other options. In three cases, virtually all of the managerial/technical staff left voluntarily, resigning to find new jobs or start their own businesses. On average, however, voluntary departures account for only about 10 percent of a reduction in force.

Perhaps the most interesting statistic is that, on average, only half the managerial/technical staff were discharged or laid off. The rest were able to find a suitable window or other option. About one-third of the respondents were able to handle a managerial/technical reduction of 25 or more employees totally through the options and windows. In these cases, no one was discharged.

A similar calculation for hourly workers shows predictable differences. See Exhibit 5.7.

Early retirements and reassignments affected proportionally fewer individuals. Discharge affected considerably more. The results suggest the obvious—that companies are far more skilled in providing options and windows for managerial/technical staff than for hourly employees.

6

Outplacement Services

The phrase "outplacement services" begs definition. Generally, any assistance in finding new employment for displaced workers may fall under this heading, but that allows a very wide scope. Everything qualifies: a 10-minute meeting on the shop floor where workers are briefed on their benefits, direct individual aid and counseling, and every step between.

One hundred respondents to AMA's follow-up questionnaire — 47.6 percent of the sample of 210 companies — told us that they offered at least some form of outplacement services to employees terminated in recent downsizing efforts. The figures aligned neatly with corporate size: a third of the small firms, half the mid-sized ones, and nearly two-thirds of the large companies told us they'd provided aid in outplacement.

How to quantify a company's commitment to outplacement assistance? Three good measures exist:

- The scope of services provided;
- The range of workers to whom such services are offered; and
- The cost of those services to the company.

AMA gathered data on all three measures.

SCOPE

With the cooperation of The Redford Group, AMA developed a checklist of 15 specific outplacement services. Each is briefly defined below, in order of their popularity among our respondents. Exhibit 6.1 provides statistical breakouts for these options by both company size and category.

Resume Development. A resume, a brief review of an individual's work and personal history, highlights the qualifications, experience, background, and past accomplishments that make an employee a solid candidate for a specific job. It is a major tool in any job search, and its successful development often depends on the skills and knowledge of the counselor providing the guidance. A resume is usually necessary for an interview, and having a well-developed resume can clearly be a confidence booster for the job applicant.

Eighty-nine of the 100 firms offering assistance aided workers in resume development, making it by far the leading form of help. Every one of the 33 large companies that rendered outplacement assistance helped with resume development.

Interview Training. The interview is the arena where the applicant sells himself or herself, usually on a face-to-face basis. It is vital that the applicant appear confident and act naturally in this interface; interview training reduces anxiety and tension by preparing the applicant for the difficult questions and/or situations that may arise during the actual interview.

Seventy-two firms provided interview training as an outplacement service, including two-thirds of the small companies offering outplacement assistance. Service firms were somewhat more likely to provide such training than manufacturers.

Benefits Counseling. An explanation of the various company plans, as well as company termination policies and procedures with respect to severance dollars (the amount and how they are paid), health and life insurance, pension status, unused vacation time, sick leave, and other such benefits, can serve to reduce some of the tension and economic pressures experienced by the terminee.

Sixty firms provided benefits counseling. Again, service companies led manufacturers in doing so; small firms were as likely as large ones to offer this service.

Skill/Interest Assessment. Assessment implies some type of formal or informal testing program, using various materials and methods. An assessment attempts to isolate and/or measure the individual's physical and/or mental proficiencies that enable him or her to perform given tasks. The same skill can be central to the execution of more than one task; thus, it is useful in a variety of job functions and across occupational fields.

Interest assessment for the most part probes an individual's preferences, attitudes, and interests in different fields of work. One of the goals of assessment is to expand the career options open to the individual, who may show qualifications for occupations not previously considered. By expanding career options, assessment can build confidence and widen a worker's professional horizons.

Exhibit 6.1 Outplacement benefits checklist (percentage of firms offering these benefits as part of their outplacement support).

		Size				Category			
	All	No Answer	Large	Mid	Small	Mfg.	Service	Other	No Answer
Offered services	100	9	21	32	38	35	50	14	1
(Pct. of whole sample)	47.6%	56.3%	63.6%	53.3%	37.6%	44.3%	45.9%	66.7%	100.0%
Benefits counseling	60	6	14	16	24	18	33	9	0
	60.0%	66.7%	66.7%	50.0%	63.2%	51.4%	66.0%	64.3%	0.0%
Skill/interest assessment	58	5	13	18	22	21	28	8	1
	58.0%	55.6%	61.9%	56.3%	57.9%	60.0%	56.0%	57.1%	100.0%
Resume development	89	8	21	27	34	31	43	14	1
	89.0%	88.9%	100.0%	84.4%	89.5%	88.6%	86.0%	100.0%	100.0%
Mailings	46	4	11	18	13	17	22	6	1
	46.0%	44.4%	52.4%	56.3%	34.2%	48.6%	44.0%	42.9%	100.0%
Interview training	72	5	17	25	25	23	37	11	1
	72.0%	55.6%	81.0%	78.1%	65.8%	65.7%	74.0%	78.6%	100.0%
Labor/job market info	56	6	11	18	21	23	24	8	1
	56.0%	66.7%	52.4%	56.3%	55.3%	65.7%	48.0%	57.1%	100.0%
Out-of area search	26	4	9	8	5	8	13	5	0
	26.0%	44.4%	42.9%	25.0%	13.2%	22.9%	26.0%	35.7%	0.0%
Follow-up services	41	4	10	12	15	16	18	6	1
	41.0%	44.4%	47.6%	37.5%	39.5%	45.7%	36.0%	42.9%	100.0%
Career resource center	27	3	8	10	6	7	16	4	0
	27.0%	33.3%	38.1%	31.3%	15.8%	20.0%	32.0%	28.6%	0.0%
Peer support groups	19	1	6	3	9	4	11	4	0
	19.0%	11.1%	28.6%	9.4%	23.7%	11.4%	22.0%	28.6%	0.0%
Remediation/education	3	1	1	0	1	1	1	1	0
	3.0%	11.1%	4.8%	0.0%	2.6%	2.9%	2.0%	7.1%	0.0%
GED prep	2	1	1	0	0	0	1	1	0
	2.0%	11.1%	4.8%	0.0%	0.0%	0.0%	2.0%	7.1%	0.0%
On-site unemployment	6	1	2	1	2	2	4	0	0
	6.0%	11.1%	9.5%	3.1%	5.3%	5.7%	8.0%	0.0%	0.0%
Counseling—finance	25	3	9	5	8	8	12	5	0
	25.0%	33.3%	42.9%	15.6%	21.1%	22.9%	24.0%	35.7%	0.0%
Counseling—family	22	3	9	3	7	6	12	3	1
	22.0%	33.3%	42.9%	9.4%	18.4%	17.1%	24.0%	21.4%	100.0%

Fifty-eight companies performed skill/interest assessments for terminated workers. In each of the sample's subsets—small, medium, or large firms; manufacturers, service providers, or others—more than half the respondents offering any outplacement services provided assessment.

Job Market Information. Services that include information on the current labor market serve to focus job search efforts more precisely on those areas with the greatest opportunity of employment for the terminee. While the data in many cases may be somewhat sketchy, it nevertheless helps to eliminate some of the wasted time and effort that goes into a job search.

Job-seekers who are armed with information about where and what jobs are available, appropriate companies to target, and potential salary levels have a leg up in the job-seeking campaigns.

Fifty-six companies gathered job market information to share with terminated employees. Two-thirds of the manufacturers among them did so, compared with less than half the service companies.

Out-of-Area Job Searches, a separate item on the AMA checklist, help to broaden the options available to terminated workers, especially at the executive level. Twenty-six firms included out-of-area information as part of their assistance efforts, with large companies (43 percent) far more likely to look beyond the local horizon than small ones (13 percent).

Mailings. Mail campaigns broadcast the availability of terminated workers. While letters from individuals seeking employment are often filed away as soon as they are received, a letter from an employer asking consideration for a terminated worker may have a special impact. Letters are not considered a particularly fruitful method of finding employment, but on occasion they will lead to interviews and subsequent job offers.

Forty-six firms performed mailings on behalf of terminated workers. Half the large and mid-sized companies did so, compared with just a third of the small ones.

Follow-up Services. The question has more to do with the period in which assistance is provided than with the specific services the employer performs. Follow-up services display a long-term commitment to terminated workers and, like other forms of assistance, build good morale among "survivors" who remain with the company.

Forty-one firms provided follow-up services of some type, with large companies (48 percent) leading the mid-sized (38 percent) and small (40 percent) firms.

At this point in the checklist, a statistical note is necessary. *As the number of companies in the sample providing any single service diminishes, differences by corporate size or business category have less statistical import.* Obviously, a small sample is not as statistically accurate as a large one, and we are now dealing with ever-smaller subsets within the 100 companies that offer some form of outplacement assistance: small, mid-sized, and large firms, manufacturers, service providers, and "others," which include diversified conglomerates. Fewer than 30 percent of the 100 firms under current study provide any of the checklist items that follow, and the reader should continue with that in mind.

Career Resource Center. Such a center opens up a variety of services for certain levels of employees who have been terminated. These services can include physical space, furniture and equipment, office supplies, and secretarial support, as well as research references, job postings, and other employment information.

A career resource center can fulfill a number of needs during the search process, ranging from an improved capability to conduct actual day-to-day activities to the psychological support needed by the job-seeker to complete the search successfully.

Service companies (32 percent) proved more likely to provide this sort of support than manufacturers, and large (38 percent) and mid-sized (31 percent) firms were far more engaged in such support than small ones (16 percent).

Counseling on Personal Finance. A review of the terminated employee's personal finances may focus on both current status and future prospects. The service enables the individual to select from among the different career options available and choose the course of action that is best suited to his or her needs. For example, counselors can supply some of the necessary data needed to make a decision as to whether the person can afford to undertake an entrepreneurial venture or commission-type work, rather than search for a salaried position.

Counseling on Family Matters helps terminated employees to deal better with family problems during the stressful period that follows notice of termination. A concomitant of employee assistance programs for all employees, family counseling can better arm the worker and his or her family to deal with the straitened circumstances that often accompany unemployment and the search for a new job.

Twenty-five firms offered financial counseling to terminated employees; twenty-two provided personal and family counseling. All the large firms in the sample that offered one (33 percent) also provided the other.

Peer Support Groups. "You are not alone" is an important message for terminated employees, who may find that a problem shared is more easily borne. Many companies offer one-time "gripe sessions," where terminated workers can air their anger and grievances; fewer encourage ongoing peer support, which may well prove far more helpful, boosting morale and confidence during the job search and allowing information to be shared.

Nineteen firms organized peer support groups, with service companies (22 percent) twice as likely to do so as manufacturers (11 percent).

On-Site Unemployment Setup. Special arrangements with state, city, or local entities may allow workers to register with government employment bureaus at the work site. Such an effort gives corporate concern a physical form, and eases the way for employees who otherwise would suffer through long lines and impersonal processing.

Six companies — four service providers, two manufacturers — arranged on-site unemployment desks with government officials.

Remediation and Basic Education. This, together with *GED (high-school equivalency) Exam Preparation,* offers help to those who may be most in need. Illiteracy in the workplace is an ongoing problem, and not only at the lower pay levels. According to a 1985 U.S. Training Industry survey, approximately 25 percent of the 2,600 firms polled were offering programs in "basic and remedial education," up from 18 percent in 1984.

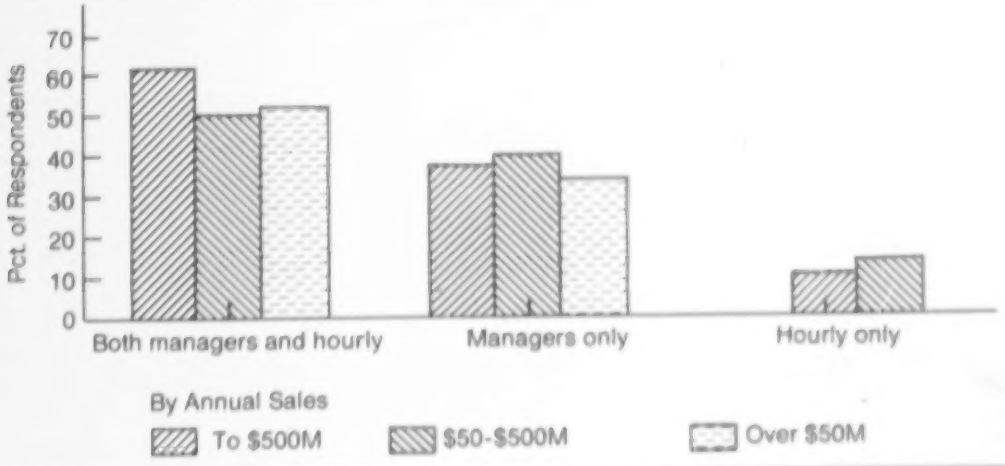
Three respondents offered remediation and basic education to terminated workers, one of them a small company. Two provided GED exam preparation.

Summary. An overview of the statistical findings offers few surprises. In most cases, large companies prove more likely to provide a particular service than mid-sized or small ones, but the gap is not so large as might be expected. In one regard — providing job market information — small companies actually lead large and mid-sized firms. The greatest gaps exist where physical and financial resources are most at issue: Large firms are twice as likely to provide individual financial or family counseling, and 38 percent of them find space for a career resource center, compared with 16 percent of small companies. Service firms are somewhat more likely to provide job information and physical support to terminated employees. But to say that large firms evince greater concern for displaced workers than smaller ones is far from the mark.

RANGE

Managers, technicians, and professionals receive a greater degree of outplacement assistance than do hourly workers. While the majority of respondents offered support to both salaried and nonexempt workers, 35 percent gave assistance to managers, technicians, and professionals but not to hourly workers. Nine percent did the reverse, helping nonexempts but not managers; all of these were small or mid-sized firms. See Exhibit 6.2.

Exhibit 6.2. Who receives outplacement services?
Companies offering outplacement. (N=91)



In general, outplacement services were offered only to employees affected by the workforce reduction. In some cases, however, assistance was extended to the entire workforce. The rationale: "survivors" taking advantage of outplacement services may leave jobs open for displaced workers who prefer to stay on.

Companies report various eligibility requirements; generally, the minimum requirement for some sort of assistance was six months' employment prior to termination. Less than a third of the respondent companies included grade level among their requirements, separating salaried workers from their nonexempt counterparts, or drawing a line at a defined management level. Very few took seniority into account; fewer still, superior performance and individual selection.

Obviously, not every form of assistance included on the checklist was offered to every employee. Moreover, an element of "volunteerism" is inherent in many programs. Whereas benefit counseling is generally offered across the board — in group meetings or in printed form — most of the one-to-one forms of assistance are made *available* but not *required*. The more intimate the form (family counseling, skill and interest assessments), the more likely that it is offered as a voluntary option.

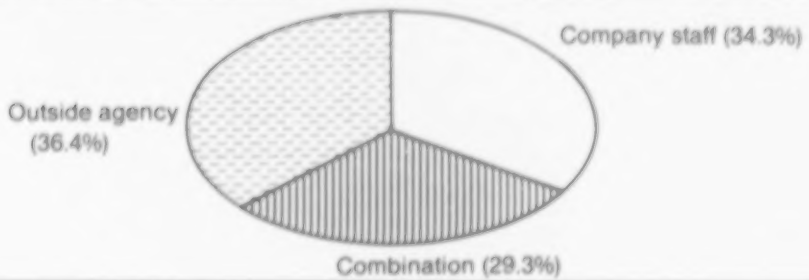
Individual counseling proved more popular than group workshops. Twice as many respondents offered counseling individually (88) than in group sessions (45); many used both forms, as deemed appropriate to the service. And 17 respondents continued individual counseling until the employee was successfully relocated — the highest form of commitment to the displaced worker.

Most of this assistance focused on reemployment, but 28 respondents offered special counseling on early retirement, and 11 set up "entrepreneurship" counseling for salaried employees whose skills might enable them to strike out on their own as consultants or self-employed businessmen. The thrust: to color termination as an opportunity rather than a setback, and to enable qualified professionals to make it on their own.

COST

The cost of offering outplacement services depends to a great extent on who takes on the assignment. In roughly equal degree, respondents counted on in-house staff (34 percent), a contracted agency (36 percent), or the two acting in combination (29 percent). See Exhibit 6.3.

Exhibit 6.3. Providers of outplacement services.
Companies offering outplacement. (N=100)



Small companies were far more likely to take a "do-it-yourself" approach: 47 percent of the small firms offering outplacement services performed the tasks entirely in-house, compared with 31 percent of the mid-sized firms and just 10 percent of the large ones. Executive outplacement firms have long targeted the *Fortune* 1000 as clients; their future growth depends on moving beyond that favored list, for the giant companies have made their choices. Four in 10 put an outside agency in charge of outplacement, and 5 in 10 worked in combination with a contracted service.

The choice of provider makes a difference in costs, according to respondents that gave us figures. Again, averages (or *means*) are less important here than *modes*, the most frequently given responses, or *medians*, marking the midway points at which as many respondents reported a higher figure as a lower one. Exhibit 6.4 also gives the highest per-person cost reported, and the lowest.

With variations so large, further explanation is necessary. The range of services provided is the greatest factor impacting costs; naturally, the more a company seeks to do for its terminated workers, the higher its expenses. Moreover, it is perhaps easier to keep an account of costs provided by outside agencies (just check the bills!), than it is to account for in-house services, which may be subsumed under ongoing overhead for the human resources division.

Some specifics: The highest reported figure ($17,000) came from a California company that, in cooperation with an outside service, assisted its former president in finding a new position. A North Carolina company paid an outplacement firm $12,500 to place each of 2 managers; an Alaskan firm figured its in-house cost of finding positions for 4 managers at $5,100 each. The low figures included a Massachusetts company assisting 50 hourly workers ($30 per person) and a Texas firm paying an outside service $120 per person to place 20 managers and 5 nonexempts.

The only constant is choice. As will be seen, decisions about providing outplacement assistance have less to do with the bottom line than with concerns about morale, productivity, and image. Given that reality, companies choose their options and their providers with a sharper eye for service than for expense.

Exhibit 6.4. Outplacement services — per-person costs.
Services provided by:

	In-house Staff	Outside Organization	Combined
Mean	$ 840	$ 1,634	$ 3,912
Median	310	306	1,950
Mode	*240	1,000	*1,500
	*350		*6,000
High	5,100	12,500	17,000
Low	30	120	150

*—Two modes reported

OUTPLACEMENT PROVIDERS: CRITERIA FOR SELECTION

What do companies look for when they select an outplacement firm? The AMA questionnaire offered a 10-item checklist, and asked respondents to rate the importance of each item on a 5-to-1 scale, a 5 indicating greatest importance, a 1, little or no importance. The ratings show that respondents place a far higher premium on quality and performance than cost. Of the 10 checklist items, the highest average ratings went to "caliber of counselors" (4.63) and "full support systems" (4.01).

The checklist, with a brief description of each item, appears in Exhibit 6.5, courtesy of the Redford Group:

Exhibit 6.5. Rating the importance of various criteria in selecting an outplacement firm.

Rating scale: 5 (greatest importance) to 1 (little or no importance). Table displays number of respondents rating each criteria at 1, 2, 3, 4, or 5.

		Organizational Size				
Criteria	Rating	All	Large	Mid	Small	No Answer
Caliber of counselors	1	1	1	0	0	0
	2	0	0	0	0	0
	3	3	1	2	0	0
	4	23	7	5	8	3
	5	63	11	23	24	5
	Average rating:	4.63	4.35	4.70	4.75	4.63
Full support system	1	1	0	0	1	0
	2	5	3	0	1	1
	3	17	3	7	6	1
	4	35	8	14	13	0
	5	31	6	9	10	6
	Average rating:	4.01	3.85	4.07	3.97	4.38
No administrative add-ons" to fees	1	2	1	1	0	0
	2	5	4	1	0	0
	3	24	5	8	7	4
	4	28	4	8	16	0
	5	27	5	11	8	3
	Average rating:	3.85	3.42	3.93	4.03	3.86
Cost of service	1	3	1	0	2	0
	2	4	1	2	0	1
	3	28	10	10	6	2
	4	34	4	11	15	4
	5	19	4	6	9	0
	Average rating:	3.70	3.45	3.72	3.91	3.43

Exhibit 6.5. Continued.

	Rating	All	Large	Mid	Small	No Answer
Full-time staff	1	6	2	1	3	0
	2	15	3	4	7	1
	3	16	3	5	7	1
	4	32	6	13	9	4
	5	18	6	5	6	1
	Average rating:	3.47	3.55	3.61	3.25	3.71
Client access to office space and phones	1	10	4	3	3	0
	2	7	1	2	2	2
	3	26	5	9	11	1
	4	20	4	7	8	1
	5	21	5	6	7	3
	Average rating:	3.42	3.26	3.41	3.45	3.71
Client access to computerized databases	1	16	4	5	7	0
	2	20	6	6	6	2
	3	28	6	11	10	1
	4	14	1	3	6	4
	5	7	2	3	2	0
	Average rating:	2.72	2.53	2.75	2.68	3.29
Personal financial review	1	14	3	3	7	1
	2	25	7	9	7	2
	3	21	4	10	7	0
	4	20	3	6	8	3
	5	3	1	0	1	1
	Average rating:	2.67	2.56	2.68	2.63	3.14
Counseling for retirement	1	21	3	9	8	1
	2	27	6	10	9	2
	3	20	5	7	6	2
	4	7	2	1	3	1
	5	10	3	1	4	2
	Average rating:	2.51	2.79	2.11	2.53	3.13
Counseling for entrepreneurship	1	27	5	10	11	1
	2	26	6	9	9	2
	3	23	6	8	6	3
	4	8	1	1	5	1
	5	1	1	0	0	0
	Average rating:	2.18	2.32	2.00	2.16	2.57

Note: Respondents are those that offered outplacement services (N = 100). Not all respondents gave ratings to each item offered in checklist.

Caliber of Counselors. At present, given the absence of specific criteria, evaluating the caliber of counselors remains qualitative rather than quantitative. Nevertheless, those involved in either providing or purchasing outplacement services cite empathy (that is, the ability to project warmth, interest, and kindness) as the quality most often sought in counselors. However, more important is a knowledge of the business world and the quality of being results oriented. In addition, a counselor must demonstrate critical thinking ability, possess analytical and communications skills, and be objective.

Seventy percent of the respondents answering this section gave "caliber of counselors" a 5. The average among small and mid-sized firms was 4.73, among large ones, 4.35 — not an important difference when all marks are high. *Average rating: 4.63.*

Full Support System. Generally speaking, a support system provides the terminated employee with some combination of the following: stationery; secretarial service; telephone and message service; copy, reproduction and mailing service; desk space; and a reference library and library research assistance.

Only a few outplacement firms offer private office space, and then only to the upper-level or more highly compensated candidates. With some firms, fees change according to the number of services given. On average, however, it can be assumed that a fee equaling 15 percent of the terminee's annual salary buys a full support system.

On the 5-to-1 scale, 35 respondents rating this item at 4, 31 at 5. There were no important variations among subgroups. *Average rating: 4.01.*

No Administrative "Add-ons" to Fees. Most outplacement firms customarily tack onto their basic fee an extra amount to cover office overhead, mailings, and the like. This is a one-time expense, and should not be confused with out-of-pocket expenses additionally charged by some outplacement providers.

As stated below, "add-ons" typically run from $500 to $1,500. It should be noted, however, that while they are commonplace in the industry, not all firms have such a policy. Nor do the add-ons have any effect on the number and quality of services provided.

Once respondents have a fix on outplacement costs, they want no additions or unpleasant surprises. "No add-ons" proved a higher concern than cost itself, especially to small and mid-sized firms. *Average rating: 3.85.*

Cost of Service. The rule is 15 percent of the candidate's total cash compensation. A number of firms also have an "add-on fee" of a fixed amount of anywhere from $500 to $1,500.

Cost proved a greater concern to small companies than large ones. Large firms gave cost an average rating of 3.45, and the modal response on the 5-to-1 scale was 3; small firms' ratings averaged 3.91, and the mode was 4. *Average rating: 3.70.*

Full-Time Staff. Established outplacement firms other professional associates, and consultants attempt to limit the hiring of temporaries, since the quality of services may be compromised by temporary staff or "stringers" who work on a free-lance basis and are brought on to answer peak

outplacement projects. A full-time counselor can handle an average caseload of 20 to 25 people comfortably. Of course, clients have entered the outplacement program at various times, are at different stages in the program, and therefore demand different amounts of time.

Full-time staff proved a higher priority to large companies, whose ratings here averaged 3.55, than smaller ones, which averaged 3.25. *Average rating: 3.47.*

The following checklist items have to do with specific services offered by outplacement firms. Save for the first listed, none gained a rating above 3. Respondents placed far more importance on overall concerns — cost, caliber, support and staff — than on particulars.

Client Access to Office Space and Phones. Such access serves two major functions. For the terminated worker, it replaces the loss of identity and structure that the lost job environment provided, and it restores self-esteem and confidence. It is a place to go, to make telephone calls, receive messages, attend to correspondence. At the same time, it allows the company to be "rid of the ghosts." This works well for the company and helps the individual retain a sense of dignity and worth.

Such access pulled a somewhat higher rating from small firms (3.45) than large ones (3.26), but the difference has no great significance. *Average rating 3.42.*

Client Access to Computerized Databases. Few outplacement organizations provide this service. However, as is generally acknowledged, it is particularly valuable in that it enables the individual to enlarge the scope of his or her opportunities.

Computerized databases cut down turnaround time markedly for candidates. Their applications are virtually limitless. Not only are they the quickest information-gathering source available, but they also afford an excellent targeting tool — one that allows candidates to penetrate the marketplace rapidly and to focus their efforts as selectively or broadly as they wish. *Average rating: 2.72.*

Personal Financial Review. While it is valuable for candidates to understand where they are in terms of their current and projected financial situation — cash flow, assets, feasibilities — and how they may sustain their standards of living, a financial review is particularly important in calculating the feasibility of a career change and/or entrepreneurial venture. Relatively few outplacement firms offer the service, which should be performed by an outsider, such as a CPA or a financial planner. *Average rating: 2.67.*

Counseling for Retirement. Most large outplacement firms offer some type of retirement counseling, although there is no consensus on when it is best to do so. Again, there is little agreement among them on what such a package should contain. Common elements, however, include an explanation of such topics as health, finances, work of some other kind (part-time, volunteer, etc.), and leisure activities. *Average rating: 2.51.*

Counseling for Entrepreneurship. As used here, the term means going into business for oneself or being self-employed. Although the initial stages for the outplacement process are common to both job-seeking and preparing to undertake a business venture, marketing planning and strategies are not. It is clearly more beneficial when counselors possess first-hand skills and knowledge in getting businesses started. *Average rating: 2.18.*

WHYS AND WHEREFORES

The 100 companies in the AMA sample that offered outplacement services did so for reasons that went beyond the bottom line. Asked to rate the benefits their companies realized from offering outplacement, the highest ratings touched on issues of morale and image. Actual or potential liability proved of far lesser concern, especially to the larger companies in the sample. See Exhibit 6.6.

Eased Management Concerns about Terminating Long-Term Employees. This scored a 4.05 average on the 5-to-1 scale, providing the highest rating achieved. A 5 was the modal response—the

Exhibit 6.6 Rating the benefits derived from offering outplacement services to displaced workers.

Rating scale: 5 (greatest importance) to 1 (little or no importance). Table displays number of respondents rating each benefit at 1, 2, 3, 4, or 5.

		Organizational Size				
	Rating	All	Large	Mid	Small	No Answer
Eased management concerns about terminating long-term employees	1	5	2	2	1	0
	2	3	1	1	1	0
	3	14	1	5	8	0
	4	31	7	8	11	5
	5	40	10	14	13	3
	Average rating:	4.05	4.05	4.03	4.00	4.38
Improved morale in remaining workforce	1	2	0	1	1	0
	2	11	6	0	4	1
	3	16	4	6	3	3
	4	24	2	11	10	1
	5	41	9	12	17	3
	Average rating:	3.97	3.67	4.10	4.09	3.75
Improved company image in community	1	5	1	0	4	0
	2	5	1	2	2	0
	3	17	2	6	8	1
	4	30	9	9	8	4
	5	32	8	13	10	1
	Average rating:	3.89	4.05	4.10	3.56	4.00
Stabilized productivity among remaining workforce	1	4	1	1	2	0
	2	8	3	2	2	1
	3	20	5	6	8	1
	4	26	3	11	8	4
	5	31	8	9	13	1
	Average rating:	3.81	3.70	3.86	3.85	3.71

Exhibit 6.6. Continued.

	Rating	All	Large	Mid	Small	No Answer
Avoiding	1	12	2	3	6	1
grievance	2	8	2	1	5	0
/wrongful	3	8	4	1	3	0
discharge	4	31	6	13	8	4
liability	5	35	6	14	12	3
	Average rating:	3.73	3.60	4.06	3.44	4.00
Reduced	1	15	4	4	7	0
unemployment	2	12	5	4	2	1
compensation	3	23	3	12	6	2
liability	4	15	5	4	4	2
	5	17	4	2	10	1
	Average rating:	3.09	3.00	2.85	3.28	3.50
Reduced	1	19	2	7	9	1
benefit	2	16	6	5	4	1
extension	3	22	5	10	6	1
liability	4	17	7	2	6	2
	5	8	1	2	4	1
	Average rating:	2.74	2.95	2.50	2.72	3.17

Note: Respondents are those that offered outplacement services (N = 100). Not all respondents gave ratings to each item offered in checklist.

most frequently given — among companies of every size. As we will see, morale among the remaining workforce was also rated high; this question concerned morale at the very top. Decisions about downsizing put senior management under the gun. They must weigh the balance between benefits to the many — the surviving workforce, the stockholders, and the community — and hardship for the few (and, often, the not so few) who lose their positions. The drive to "do our best" for displaced workers, especially those with long service, is the prime motivation for providing outplacement assistance.

Improved Morale among Remaining Workforce. The psychological impact of workforce reductions on both the terminated workers and the surviving employees is discussed at some length below, in a contribution from Donald R. Simon of Eclecon, a human resources consulting firm. At present, it is enough to say that respondents to the AMA questionnaire are aware that in the wake of a workforce reduction, companies often lose the very people that they most want to keep. Surviving employees fear a new round of reductions and worry about the company's future — and their own. Frequently, the first step a "survivor" takes after others receive notice is to polish up the resume and undertake a job search. Again, when the company pledges to "do its best" for those caught by the scythe, remaining workers are less fearful for their own sakes.

"Improved morale" scored a 3.97 on the 5-point scale. Small and mid-sized companies actually rated this factor higher than the previous entry, "eased management concerns" — a 4.09 and 4.10 average, respectively. Large firms averaged a 3.67 rating. An explanation: the larger the workforce, the more distant the reduction may seem, and the less the effect on morale.

Improved Company Image in Community. The average rating was 3.89, with an important difference appearing between large (4.05) and mid-sized firms (4.10) and small ones, which averaged but a 3.56.

A point made previously bears repeating. Downsizing has more and more become an ongoing corporate activity; it may occur even while profits are high and the company's future looks secure. This action requires a new set of explanations, not only to displaced workers but also to the community at large. Outplacement services help to calm troubled waters. Also, it is self-evident that downsizing at larger firms has a greater community impact; no surprise, then, that large and mid-sized company respondents would display higher concern with community relations than would the smaller firms.

Stabilized Productivity among Remaining Workforce. This item aligns with concern for morale, but while morale may be difficult to gauge, productivity can be measured by familiar techniques. Of course, how one feels affects how one works; the differing ratings may indicate the extent to which this is the case.

"Stabilized productivity" drew an average rating of 3.81 (recall that "improved morale" scored a 3.97). The difference: a lesser gap between responses as measured by corporate size. Ratings here ranged from an average of 3.70 for large firms to 3.86 for mid-sized and small ones — far from the half-point difference in responses to the earlier question.

Avoidance of Grievances and Wrongful Discharge Liability. In contrast to questions about morale and image, this issue is a very tangible one. Lawsuits abound, as employees claim wrongful discharge while companies claim their rights to "employ at will." Widespread workforce reductions may engender class action suits as well as individual grievances. Active outplacement assistance helps tame the anger inherent when livelihoods are at stake.

The issue scored an average rating of 3.73. The modal response, however, was a 5, checked by 35 respondents, and 34 marked it a 4. Only the fact that 12 respondents considered such liability no problem at all drew down the average. This form of liability is very much a concern among three-quarters of the respondents offering outplacement.

Unemployment Compensation Liability. It's simple math: the sooner the terminated employee finds new work, the sooner the company stops paying its share of unemployment benefits. An average rating of 3.09 shows that the issue matters — especially to small companies, which averaged a 3.28 rating. But the responses show that it matters less than other checklist items in the decision to offer outplacement services. Companies that downsize have already decided to bite the bullet on unemployment compensation. The decision to assist displaced workers in finding new jobs may have some salutary effect on the cost of reducing the workforce, but that is not a major reason for providing outplacement services.

Benefits Extension Liability. The average rating was 2.74, lowest for any checklist item. If

unemployment compensation liability matters little in the decision to offer outplacement services, benefits extension matters still less: one must pay one's share of unemployment benefits, but benefits extensions are matters of individual company policy, and respondents do not connect those policies to outplacement services.

TO BE SPECIFIC . . .

The 5-to-1 scale asks for a subjective judgment. The AMA questionnaire also sought something more tangible. We asked if respondents had collected specific data that could in some way quantify the benefits of outplacement in terms of productivity, turnover, and morale.

The response, though limited, was varied. Six companies told us they'd attempted to collect such data. Five had targeted specific plants, units, or functions when they downsized; four had cited "improved staff utilization" as a rationale. Thus, productivity in a specific area was a central issue in these cases.

According to a mid-sized firm that had suffered significant financial losses before downsizing, the best measure of post-reduction performance was customer satisfaction. "Via oral and written reports, small group meetings, and one-on-one discussions, we closely monitored productivity rates, service level performance, absenteeism, voluntary turnover, employee complaints, and employee morale. This enabled us to treat departing people equitably, as well as to keep our remaining employees well informed, productive, and as calm as possible. We were able to provide our customers with continued high-quality service, which was extremely important to the credibility and viability of the company," the respondent reported.

One company, a nonprofit service provider, took data in exit interviews and subsequent monitoring of performance indicators. "Output remained at the same level, but morale, momentarily, took a downward turn," that company told us. A mid-sized manufacturer that cut 60 hourly workers and 6 managers likewise measured productivity and found that it remained the same as before, and in some cases increased.

"We believe we are a compassionate company," said another respondent that had shut down one location to centralize the corporate function. "When we must make the hard decision to release a person, we want to give him the opportunity to succeed elsewhere." This company did so, reassigning 15 employees within the company and placing 3 managers and 5 hourly workers through an outside agency. This care for discharged employees had an evident effect on those who remained.

A midwestern manufacturer that shut down one plant said that its only dependable gauge was "management perception." The personnel director told us that from "the talk around the shop," he felt that "remaining employees felt very good about the company's efforts." Of the 50 employees laid off, only 3 did not have jobs as of the last day. Their tools: networking, job fairs, paid time off for job seeking, and contact with both private and public employment agencies, as well as a full range of outplacement services.

The largest of the six companies supplying information in this area laid off 9,500 employees in its reduction. Some offices were closed; selected functions were heavily impacted. The company closely

monitored the results of outplacement assistance with "a variety of variables: time span from layoff to reemployment, age dispersion, years of service." They judged that "morale was higher immediately after the reduction than one year prior to it" — the result, in part, of a 95 percent success rate in placement of discharged workers.

ASSISTANCE FOR DISPLACED WORKERS

The line between "outplacement services" and "assistance for displaced workers" is drawn in pencil, not stamped in printers' ink. The AMA questionnaire provided a second checklist under the latter title, a collection of initiatives that fall outside the usual definitions of "outplacement services" or "retraining practices." The least that can be said of each initiative is that it is better than nothing, the best, that it proves effective in placing workers in new jobs.

Exhibit 6.7 Types of assistance offered, by all categories.

		Size				Category		
	All	No Answer	Large	Mid	Small	Mfg.	Service	Other	No Answer
	210	16	33	60	101	79	109	21	1
Offered any assistance (Pct. of whole sample)	116	12	26	34	44	45	57	14	1
	55.2%	75.0%	78.8%	56.7%	43.6%	57.0%	52.3%	66.7%	100.0%
Management networking	93	8	21	26	38	40	42	11	0
	44.3%	50.0%	63.6%	43.3%	37.6%	50.6%	38.5%	52.4%	0.0%
Paid time off for job search	87	8	19	22	38	28	47	12	0
	41.4%	50.0%	57.6%	36.7%	37.6%	35.4%	43.1%	57.1%	0.0%
Relocation opportunities at other company units	73	8	28	19	18	22	40	10	1
	34.8%	50.0%	84.8%	31.7%	17.8%	27.8%	36.7%	47.6%	100.0%
Liaison with private agency	52	4	17	18	13	17	22	6	1
	24.8%	25.0%	51.5%	30.0%	12.9%	21.5%	20.2%	28.6%	100.0%
Liaison with public agency	35	3	10	10	12	17	13	5	0
	16.7%	18.8%	30.3%	16.7%	11.9%	21.5%	11.9%	23.8%	0.0%
Job fairs	18	0	11	4	3	6	9	3	0
	8.6%	0.0%	33.3%	6.7%	3.0%	7.6%	8.3%	14.3%	0.0%
Job market data	11	1	6	1	3	3	6	2	0
	5.2%	6/3%	18.2%	1.7%	3.0%	3.8%	5.5%	9.5%	0.0%

Exhibit 6.8. Most effective tactic, by all categories.

		Size				Category		
	All	No Answer	Large	Mid	Small	Mfg.	Service	Other	No Answer
Management networking	43 46.2%	4 50.0%	9 42.9%	12 46.2%	18 47.4%	16 40.2%	21 50.0%	6 54.5%	0 0.0%
Paid time off for job search	29 33.3%	3 37.5%	5 26.3%	8 36.4%	13 34.2%	11 39.3%	13 27.7%	5 41.7%	0 0.0%
Relocation opportunities at other company units	20 27.4%	2 25.0%	10 35.7%	5 26.3%	3 16.7%	7 31.8%	9 22.5%	10 100.0%	0 0.0%
Liaison with private agency	15 28.8%	2 50.0%	5 45.5%	3 16.7%	5 38.5%	5 29.4%	8 36.4%	2 33.3%	0 0.0%
Liaison with public agency	7 20.0%	0 0.0%	2 20.0%	2 20.0%	3 25.0%	3 17.6%	3 23.1%	1 20.0%	0 0.0%
Job fairs	6 33.3%	0 0.0%	4 36.4%	1 25.0%	1 33.3%	2 33.3%	3 33.3%	1 33.3%	0 0.0%
Job market data	2 18.2%	1 100.0%	0 0.0%	1 100.0%	0 0.0%	1 33.3%	1 16.7%	0 0.0%	0 0.0%

Of the 210 companies in the sample—companies that had actually downsized in the 18 months from January 1986 to June 1987—116, or 55 percent, rendered some form of assistance found on this second checklist. Large companies were far more active here than mid-sized or small ones. Four out of five firms in the sample with annual sales in excess of $500 million engaged in at least one such initiative, compared with just half of all others. But the large-company lead was less pronounced for some forms of assistance than for others.

Business category mattered far less. Fifty-seven percent of the manufacturers in the sample marked at least one checklist item, compared with 52 percent of the service providers and two-thirds of all "others"—a category that, as stated above, includes diversified conglomerates. See Exhibits 6.7 and 6.8.

What were these forms of assistance, and how popular did they prove among respondents?

Management Networking with Area Employers to Develop Employment Opportunities. This proved the leading form of assistance within the sample, performed by 44 percent of the respondent

firms; 43 companies, or 46 percent of those offering such help, considered it their most effective practice.

The shape and substance may vary from a concerted effort on behalf of all displaced workers to several phone calls and letters for a favored few. The message is an important one: these are *good people* we've been forced to terminate, due to circumstances beyond their own control; they deserve special consideration from prospective employers.

"I wrote to organizations in the surrounding communities, advising them of our outplacement activities," said the personnel director of a mid-sized manufacturing firm. "After interested companies called, we screened our employees and sent out only those most qualified for the available position."

Paid Time Off for Job Seeking. Forty-one percent of the sample allowed workers to seek employment on "company time," and a third of them cited this as their most effective tactic. In an important way, this practice gives official sanction to the real state of things as they exist after notification of downsizing. Of course, employees will spend at least part of their working hours in a job search; ought they have to pretend otherwise? By announcing that a stated percentage of their time can be dedicated to the hunt—and additionally that company phones and services may be used—the employer may get more productive work in those hours *not* dedicated to finding a new job.

Relocation Opportunities with Company Units in Other Geographic Locations. Naturally, large companies were more active in this practice than smaller ones. For large firms, this proved by far the most popular of all forms of assistance: 85 percent of the large companies rendered such assistance—but, significantly, only 35 percent of those marked it their most effective practice. For the rest, 32 percent of the mid-sized firms and 18 percent of the small ones helped displaced workers to seek jobs at other corporate locations, and just 21 percent of them thought it their most effective tactic. For the whole sample, the numbers work out to 35 percent using the practice, and 27 percent marking it "most effective."

The gap between those that tried the practice and those that succeeded at it is a reminder that more than a third of all the reductions in force reported in the sample were companywide. It cannot be assumed that a large firm that is firing at one location is hiring at another. Moreover, in-company transfers often involve relocation expenses, which can be hefty.

Special Liaison Arrangements with Private Employment Agencies or Search Firms. A fourth of the sample, or 52 companies, identified a "preferred" private agency or contracted with one on behalf of its displaced workers. Half the large companies in the sample, but only 20 percent of the others, made such arrangements. Fifteen firms, or 29 percent of those taking this route, called it their most effective tactic.

Early, we reported that 36 companies in the sample chose a private firm to provide outplacement services for displaced workers, and another 29 companies rendered outplacement assistance with a combination of corporate staffers and outside personnel. That finding involves a different kind of relationship than this checklist item implies. Here, any sort of identification with a specific outside agency is at issue, not necessarily a contractual arrangement.

Special Liaison Arrangements with Public Employment Agencies. Thirty-five respondents, or 17 percent of the sample, opted for special arrangements with state or local employment bureaus. Large firms were twice as likely to do so as mid-sized one, three times as likely as small firms. Twenty percent of those who made such arrangements cited it as their most effective tactic.

A mid-sized telecommunications company made contact with its state employment commission in advance of its reduction in force, advising the state officials of the upcoming action. "We contacted the commission to make them aware of our impending situation," the personnel director said. "They informed us about their retraining operation, which would be available to all employees who qualified. We supplied the names of the affected employees, and the commission contacted them individually. After that we were no longer directly involved in the process.

"I know that most of our displaced employees found new employment, although I don't know how many were directly assisted by the commission," the source told us.

Job Fairs: On-Site Programs for Displaced Workers to Meet Prospective Employees. Eighteen of the respondents, or 9 percent of the sample, offered job fairs. Eleven were large companies—33 percent of all the large firms in the sample—and 4 of those called it their most effective tactic. Overall, 6 of the 18 found the event most effective. That is a substantial figure; only "management networking" did better in terms of the percentage of practitioners who cited a particular effort as their "most effective."

Job fairs can be expensive and difficult to organize: they require space, setup and knock-down time, and wide participation if they are to be effective. *The 1986 AMA Report on Hiring Costs and Strategies* found that only 4.3 percent of 450 respondent companies regularly used such events to draw prospective employees. But the current figures indicate that the outcome may be worth the effort. Certainly, as a "high visibility" event, a job fair catches attention. Terminated employees see it as a welcome opportunity and thus a morale-booster. Other area employers find advantage in talking with a large number of prospective employees in a short time. And media coverage can help to spread the word that experienced workers are available, while the event itself helps the image of the host company in the community.

Development and Analysis of Job Market Data Showing Skill Needs in Affected Areas for Retraining Purposes. A scant 5 percent of respondent companies performed this relatively sophisticated service, and only two of those cited it as their most effective tactic.

"I belong to the local industrial relations chapter," one respondent told AMA researchers, "and with the help of their directory of affiliated organizations I pinpointed manufacturing firms located in our geographic area and initiated correspondence on behalf of our displaced workers. It was necessary to localize the search for employment, because many of the affected employees did not want to relocate or commute.

"I included job descriptions for the positions that were being eliminated. The response was very good, about 25 percent of the companies I contacted," the respondent continued. "In fact, many of the companies I wrote to sent the information on to other companies in the community that had openings—creating a whole new channel of communication."

Other Forms of Assistance. One respondent had to deal with a particularly sensitive problem that had a special impact on remaining workers. "Our company is family oriented," he told us. "Most of our employees joined our company very early on in their careers, being recommended for positions by parents, aunts or uncles, cousins, siblings, or friends. In addition, we have a number of married couples within the company.

"When the downsizing occurred, many of those who found themselves without jobs were leaving behind friends and family. It was important for us to provide a support structure, because the effect on morale could have been devastating.

"By providing those affected employees with job opportunities, pointers on interviewing, and a sounding board where they could discuss their progress and get advice on how to proceed, we created goodwill with both those leaving and those remaining. It was especially important for those remaining, because it let them know that if their number came up—our reduction was based on seniority—the company was prepared to make an effort to help them find new employment.

"The bottom line: of 130 hourly positions eliminated, 75 to 80 were placed with our assistance. For the most part, job salaries and benefits remained on a par with what the employees received from us. There were exceptions—some employees who had been with us a long time had to take cuts, but, luckily, nothing drastic."

Summary. Whatever the success stories, an important fact remains: Nearly half the companies responding to AMA's follow-up questionnaire offered no assistance to workers who lost their jobs in the 18-month period under study. Moreover, the section of the questionnaire containing this checklist of assistance programs did not ask for data on the percentage of displaced workers to whom assistance was offered. If employees who have lost jobs, employees who remain, and the surrounding community feel that a company has an obligation to help terminated workers find new jobs or to ease the pain of losing present employment, that feeling is not widely shared by senior management who have the option to provide such help.

HARD TIMES: THE PSYCHOLOGY OF TERMINATION

Donald R. Simon is a partner in Eclecon, a human resources consulting firm with offices in Denver and Salt Lake City. The company provides clients with a range of products and services and has a special interest in the psychological and behavioral effects of workforce reductions. For this AMA report, Mr. Simon summarized Eclecon's recent findings:

The psychological consequences of layoff and termination have been fully documented. Increases in substance abuse, family abuse, and illness are frequent results; less common, but by no means rare, are suicides or equally dramatic events.

Consider the complexity of the situation. When feelings of helplessness combine with high stress, financial uncertainty, and blows to self-esteem, the mix creates a fertile environment for depression. Dealing effectively with the situation involves an application of techniques drawn from clinical psychology, stress counseling, and industrial training.

- Immediate counseling is needed to identify people who are incapacitated by such events, and to help others deal with their legitimate anger, and then move on to acceptance and activity in job-hunting campaigns.
- Assessment further helps to pinpoint individuals who need special assistance, and helps others consider all their career options.
- Structure fills in the void caused by not "going to work." Providing an office and assisting with development of a concrete plan are important stress reduction techniques and obviously create job-hunting efficiency.
- Coaching reinforces productive job hunting and keeps people on track. Counseling and reassurance are important.

The techniques that best assist people preach "converting the threat to an opportunity." Unfortunately, as AMA's statistics show, few companies are able or willing to pay for basic training for any, let alone most, of its people. Ongoing coaching and counseling is deemed too expensive.

So, two keys to dealing with the psychological and skill aspects of job hunting are (1) individual counseling, and (2) assisting in the development of a new structure. Counseling is labor intensive, and therefore expensive; providing structured training and a resource center for tangible support is a less expensive alternative.

Unfortunately, most nonexecutive outplacement programs are inadequate and serve chiefly to "ease management concerns," as AMA's questionnaire found. People don't move through their feelings, acquire new skills, and learn the rules of the new game in a one-day seminar.

Eclecon's evaluation of outplacement practices discovered four psychological limitations:

- Ventilation counseling is usually ineffective. Too often, poorly trained consultants get stuck with their clients at an unproductive stage.
- Assessment seldom links to career planning. Extensive testing may provide an interesting excursion for the individual, but it comes at a time when he or she can't afford to be sidetracked.
- The family is not considered. Termination has an impact on the entire family; our research found that teenage boys are at especially high risk. Spouse involvement is critical.

When the reality of what people need is compared to what corporations will pay, it becomes obvious that new and more cost effective methods are needed.

But the psychological effect on terminated employees is only half the story. The organization itself, and especially the managers who first hired and then fired those workers, face difficult emotional circumstances. Their morale is also at risk.

Too often, companies that have soothed the remaining workforce with the message "that's it; you can rest easy" come back with a second round of layoffs, and then yet another. The employees feel betrayed; management, in all sincerity, responds that it "just didn't know."

Should managers simply avoid making any commitments? This is weak and defensive. A better solution: emphasize a team approach of "security through productivity." Certainly this is no easy thing to do when the organization has broken the psychological contract that says, "You do your job, and we'll take care of you." But true leadership must put forth an honest message: increased productivity is the best protection—perhaps the only protection—against further layoffs.

RETRAINING INITIATIVES

Very few companies told AMA they'd offered skill-training programs for workers discharged in the period under study, and fewer still gave us specific data. Twelve respondents, or 5.7 percent of the sample, organized a retraining effort; none retrained more than 80 employees, and the highest cost reported was $15,000.

Two-thirds of the workers enrolled in such programs completed them, and all but a few "came close to completion and likely benefited." All of the companies giving data said that they had borne the entire cost of such retraining themselves.

Asked if they had *ever* taken advantage of *any* government-sponsored retraining program, 25 companies, or 11.9 percent of the sample, said yes. Sixteen of these firms had participated in state-sponsored programs, 11 in federal programs, and 8 in locally sponsored initiatives. See Exhibit 6.9.

More revealing, perhaps, are the reasons the rest of the sample gave us for *not* participating in such programs. Based on the checklist provided:

- 45.6 percent said they lacked information about such programs or the resources needed to take advantage of them. This issue was less a concern of large firms than small and mid-sized ones, among whom half the respondents cited this as a factor.
- 40.1 percent said that the short time period between notification of workforce reductions and the actual layoffs made participation impossible. A greater percentage of manufacturers (44.8 percent) than service providers (35.7 percent) gave this as a reason.
- 18.7 percent believed that available programs were ineffective. There were no important variations by size or category.
- 15.9 percent said that retraining programs were not available for their industries. This lack was of far greater concern to service companies (23.5 percent) than to manufacturers, of whom only 6 percent complained that retraining wasn't available.
- 8.8 percent said such programs were not available in their localities. Surprisingly, small companies (6.7 percent) were less affected by this than large (13.3 percent) or mid-sized (12 percent) firms.
- 7.1 percent were stymied by government bureaucracy and red tape. Companies of every size and type made equal complaint.

Exhibit 6.9. Participation in government-sponsored retraining programs.

		Size				Category			
	All	No Answer	Large	Mid	Small	Mfg.	Service	Other	No Answer
Did not participate	182	13	30	50	89	67	98	16	1
(Pct. of whole sample)	86.7%	81.3%	90.9%	83.3%	88.1%	84.8%	89.9%	76.2%	100.0%
Lack information/ resources	83	8	8	25	42	32	44	6	1
	45.6%	61.5%	26.7%	50.0%	47.2%	47.8%	44.9%	37.5%	100.0%
Short time period notification to layoff	73	5	8	25	42	32	33	6	1
	40.1%	38.5%	26.7%	44.0%	42.7%	44.8%	35.7%	43.8%	100.0%
Believed program ineffective	34	2	6	10	16	15	16	3	0
	18.7%	15.4%	20.0%	20.0%	18.0%	22.4%	16.3%	18.8%	100.0%
Not available for industry	29	0	7	8	14	4	23	2	1
	15.9%	0.0%	23.3%	16.0%	15.7%	6.0%	23.5%	12.5%	100.0%
Not available for location	29	0	4	6	6	7	7	2	0
	8.8%	0.0%	13.3%	12.0%	6.7%	10.4%	7.1%	12.5%	0.0%
Gov't bureaucracy/ red tape	13	1	3	5	4	4	9	0	0
	7.1%	7.7%	10.0%	10.0%	4.5%	6.0%	9.2%	0.0%	0.0%

Summary. Federal, state, and local governments have targeted retraining programs in budget cutbacks throughout this decade. From what our respondents tell us, the cutbacks have had less to do with actual program delivery than with information resources — getting the word out to the economic community that such retraining is available. Also, a greater contribution is now asked of participating companies, with governments picking up a lesser share of the tab. Firms that are downsizing are likely to be doing so because of reduced financial circumstances. This combination of factors underlines the survey finding: just one company in nine that downsized in the period under study has taken advantage of government retraining programs.

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3515